



Tuya Inc.

於開曼群島註冊成立以不同投票權控制的有限責任公司
A company controlled through weighted voting rights and
incorporated in the Cayman Islands with limited liability.

股份代號 Stock Code: 2391

**2023 INTERIM 中期
REPORT 報告**

U.S. | Germany | Japan | India | Colombia | China

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Corporation Information

EXECUTIVE DIRECTORS

Mr. WANG Xueji (王學集)
*(Co-chairman of the Board and
chief executive officer of the Company)*

Mr. CHEN Liaohan (陳燎罕)
(Co-chairman of the Board)

Mr. YANG Yi (楊懿)

Ms. LIU Yao (劉堯)

NON-EXECUTIVE DIRECTOR

Ms. HONG Jing (洪婧)
(retired with effect on June 20, 2023)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HUANG Sidney Xuande (黃宣德)

Mr. QIU Changheng (邱昌恒)

Mr. KUOK Meng Xiong (郭孟雄)
(alias GUO Mengxiong)

Mr. YIP Pak Tung Jason (葉栢東)

AUDIT COMMITTEE

Mr. HUANG Sidney Xuande (黃宣德) *(Chairman)*

Mr. QIU Changheng (邱昌恒)
*(ceased to be a member with
effect from June 20, 2023)*

Mr. KUOK Meng Xiong (郭孟雄)
(alias GUO Mengxiong)

Mr. YIP Pak Tung Jason (葉栢東)
(appointed with effect on June 20, 2023)

COMPENSATION COMMITTEE

Mr. WANG Xueji (王學集)

Mr. QIU Changheng (邱昌恒) *(Chairman)*

Mr. KUOK Meng Xiong (郭孟雄)
(alias GUO Mengxiong)

NOMINATION COMMITTEE

Mr. CHEN Liaohan (陳燎罕)

Mr. QIU Changheng (邱昌恒) *(Chairman)*

Mr. KUOK Meng Xiong (郭孟雄)
(alias GUO Mengxiong)

CORPORATE GOVERNANCE COMMITTEE

Mr. QIU Changheng (邱昌恒) *(Chairman)*

Mr. KUOK Meng Xiong (郭孟雄)
(alias GUO Mengxiong)

JOINT COMPANY SECRETARIES

Mr. CHAI Xiaolang (柴曉浪)

Ms. TANG King Yin (鄧景賢)

AUTHORIZED REPRESENTATIVES

Ms. LIU Yao (劉堯)

Ms. TANG King Yin (鄧景賢)

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AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

22/F Prince's Building
Central
Hong Kong

Corporation Information

LEGAL ADVISORS

As to Hong Kong law and United States law

Davis Polk & Wardwell

10th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong

As to Cayman Islands law

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COMPLIANCE ADVISOR

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Hong Kong

HONG KONG SHARE REGISTRAR

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PO Box 1093, Boundary Hall
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Grand Cayman
KY1-1102
Cayman Islands

PRINCIPAL BANKS

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Xi Hu District, Hangzhou
Zhejiang, China

Industrial and Commercial Bank of China, Hangzhou Wu Lin Branch

No. 399, Ti Yu Chang Road
Xia Cheng District, Hangzhou
Zhejiang, China

Bank of China, Hangzhou High and New Technology Industrial Development Zone Branch

No. 390, Wen San Road
Xi Hu District, Hangzhou
Zhejiang, China

STOCK CODE

2391

NYSE STOCK TICKER

TUYA

COMPANY'S WEBSITE

ir.tuya.com

Key Highlights

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED JUNE 30, 2023

- **Total revenue** was US\$104.5 million, down approximately 11.4% year-over-year (for the six months ended June 30, 2022: US\$117.9 million).
- **IoT platform-as-a-service (“PaaS”) revenue** was US\$74.7 million, down approximately 16.4% year-over-year (for the six months ended June 30, 2022: US\$89.4 million).
- **Software-as-a-service (“SaaS”) and others revenue** was US\$17.8 million, up approximately 37.7% year-over-year (for the six months ended June 30, 2022: US\$12.9 million).
- **Overall gross margin** increased to 45.6%, up 3.5 percentage points year-over-year (for the six months ended June 30, 2022: 42.1%). **Gross margin of IoT PaaS** increased to 42.5%, up 0.1 percentage point year-over-year (for the six months ended June 30, 2022: 42.4%).
- **Operating margin** was negative 61.0%, up 19.5 percentage points year-over-year (for the six months ended June 30, 2022: negative 80.5%). **Non-GAAP operating margin** was negative 20.4%, up 30.6 percentage points year-over-year (for the six months ended June 30, 2022: negative 51.0%).
- **Net margin** was negative 42.7%, up 34.4 percentage points year-over-year (for the six months ended June 30, 2022: negative 77.1%). **Non-GAAP net margin** was negative 2.1%, up 45.4 percentage points year-over-year (for the six months ended June 30, 2022: negative 47.5%).
- **Net cash used in operating activities** was US\$11.4 million, down approximately 80.0% year-over-year (for the six months ended June 30, 2022: US\$57.0 million).
- **Total cash, cash equivalents, and short-term investments** were US\$942.3 million as of June 30, 2023, compared to US\$954.3 million as of December 31, 2022.

OPERATING HIGHLIGHTS FOR THE SIX MONTHS ENDED JUNE 30, 2023

- **IoT PaaS customers¹** for the six months ended June 30, 2023 were approximately 2,900 (for the six months ended June 30, 2022: 3,800). Total customers for the six months ended June 30, 2023 were approximately 4,300 (for the six months ended June 30, 2022: 5,650).
- **Premium IoT PaaS customers²** for the trailing 12 months ended June 30, 2023 were 251 (the trailing 12 months ended June 30, 2022: 267). In the six months ended June 30, 2023, the Group's premium IoT PaaS customers contributed approximately 81.1% (for the six months ended June 30, 2022: 83.8%) of IoT PaaS revenue.
- **Dollar-based net expansion rate ("DBNER")³** of IoT PaaS for the trailing 12 months ended June 30, 2023 was 58% (the trailing 12 months ended June 30, 2022: 84%).
- **Registered IoT device and software developers ("Registered Developers")** were over 846,000 as of June 30, 2023, up 19.6% from over 708,000 developers as of December 31, 2022.

1. The Group defines an IoT PaaS customer for a given period as a customer who has directly placed orders for IoT PaaS with the Group during that period.
2. The Group defines a premium IoT PaaS customer as a customer as of a given date that contributed more than US\$100,000 of IoT PaaS revenue during the immediately preceding 12-month period.
3. The Group calculates DBNER of IoT PaaS for a trailing 12-month period by first identifying all customers in the prior 12-month period (i.e., those have placed at least one order for IoT PaaS during that period), and then calculating the quotient from dividing the IoT PaaS revenue generated from such customers in the current trailing 12-month period by the IoT PaaS revenue generated from the same group of customers in the prior 12-month period. The Group's DBNER may change from period to period, due to a combination of various factors, including changes in the customers' purchase cycles and amounts and the Group's customer mix, among other things, DBNER indicates the Group's ability to expand customer use of its platform over time and generate revenue growth from existing customers.

Management Discussion and Analysis

UNAUDITED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2023

Revenue

Total revenue decreased by 11.4% to US\$104.5 million in the six months ended June 30, 2023 from US\$117.9 million in the same period of 2022, mainly due to the decrease in IoT PaaS revenue and smart device distribution revenue, partially offset by the increase in SaaS and others revenue.

- IoT PaaS revenue decreased by 16.4% to US\$74.7 million in the six months ended June 30, 2023 from US\$89.4 million in the same period of 2022. During the Reporting Period, the Group's customers remained cautious in their purchase decisions. This was primarily due to ongoing inventory backlog pressure in the downstream supply chain, resulting from a mismatch between supply and demand in the discretionary consumer electronics sector. Additionally, although the global inflation has shown signs of relief in the first half of 2023, it continues to affect consumer sentiment. In recent months, discretionary consumer electronics spending across certain categories remained soft in multiple regions. Furthermore, the decrease was in part due to an adverse impact of US\$5.0 million, or 5.6 percentage points, caused by foreign exchange rate fluctuations compared to the same period of 2022. As a result of these factors, the Group's DBNER of IoT PaaS for the trailing 12 months ended June 30, 2023 decreased to 58% compared to previous periods.
- SaaS and others revenue increased by 37.7% to US\$17.8 million in the six months ended June 30, 2023 from US\$12.9 million in the same period of 2022. During the Reporting Period, the Group remained committed to offering value-added services and various software products with strong value propositions, including SaaS solutions and Cube Smart Private Cloud solution, to its customers.
- Smart device distribution revenue decreased by 23.3% to US\$11.9 million in the six months ended June 30, 2023 from US\$15.6 million in the same period of 2022, primarily attributable to the varying timing and volume of customer demands and purchases.

Cost of revenue

Cost of revenue decreased by 16.8% to US\$56.8 million in the six months ended June 30, 2023 from US\$68.3 million in the same period of 2022, in line with the decrease in total revenue.

Gross profit and gross margin

Total gross profit decreased by 3.9% to US\$47.7 million in the six months ended June 30, 2023 from US\$49.6 million in the same period of 2022 and gross margin increased to 45.6% in the six months ended June 30, 2023 from 42.1% in the same period of 2022.

- IoT PaaS gross margin was 42.5% in the six months ended June 30, 2023, approximately flat compared to 42.4% in the same period of 2022.
- SaaS and others gross margin was 74.3% in the six months ended June 30, 2023, compared to 78.1% in the same period of 2022.
- Smart device distribution gross margin was 22.1% in the six months ended June 30, 2023, compared to 10.3% in the same period of 2022, primarily due to higher-value products solution we provided to our customers during the Reporting Period.

Management Discussion and Analysis

Operating expenses

Operating expenses decreased by 22.9% to US\$111.4 million in the six months ended June 30, 2023 from US\$144.5 million in the same period of 2022.

Non-GAAP operating expenses, defined as operating expenses excluding share-based compensation expenses and credit-related impairment of long-term investment, decreased by 37.1% to US\$69.0 million in the six months ended June 30, 2023 from US\$109.7 million in the same period of 2022. Share-based compensation expenses were US\$34.3 million in the six months ended June 30, 2023, compared to US\$34.8 million in the same period of 2022. Credit-related impairment of long-term investments was US\$8.1 million in the six months ended June 30, 2023, compared to nil in the same period of 2022.

- Research and development expenses were US\$54.5 million in the six months ended June 30, 2023, down 35.7% from US\$84.8 million in the same period of 2022, primarily because of the Group's strategic streamlining of its research and development team and operations. The Group's total salaried research and development headcount as of June 30, 2023 was 1,224, down 30.3% compared to that as of June 30, 2022. Non-GAAP adjusted research and development expenses in the six months ended June 30, 2023 were US\$46.4 million, compared to US\$77.2 million in the same period of 2022.
- Sales and marketing expenses were US\$20.1 million in the six months ended June 30, 2023, down 33.8% from US\$30.3 million in the same period of 2022, primarily because of (i) the Group's strategic streamlining of its sales and marketing team, and (ii) the Group's efforts to control expenditures and improve sales and marketing efficiency. Non-GAAP adjusted sales and marketing expenses in the six months ended June 30, 2023 were US\$16.9 million, compared to US\$26.8 million in the same period of 2022.
- General and administrative expenses were US\$41.1 million in the six months ended June 30, 2023, up 16.8% from US\$35.2 million in the same period of 2022, primarily because of (i) the credit-related impairment loss of US\$8.1 million of long-term investments, and (ii) the Group's strategic streamlining of its general and administrative team. Non-GAAP adjusted general and administrative expenses in the six months ended June 30, 2023 were US\$10.0 million, compared to US\$11.4 million in the same period of 2022.
- Other operating incomes, net were US\$4.3 million in the six months ended June 30, 2023, primarily due to receipts of software value-added tax refund and various general subsidies for enterprises.

Loss from operations and operating margin

Loss from operations was US\$63.7 million in the six months ended June 30, 2023, narrowed by 32.9% compared to US\$94.9 million in the same period of 2022. Non-GAAP loss from operations was US\$21.3 million in the six months ended June 30, 2023, narrowed by 64.5% compared to US\$60.1 million in the same period of 2022.

Operating margin was negative 61.0% in the six months ended June 30, 2023, up 19.5 percentage points from negative 80.5% in the same period of 2022. Non-GAAP operating margin was negative 20.4% in the six months ended June 30, 2023, up 30.6 percentage points from negative 51.0% in the same period of 2022.

Management Discussion and Analysis

Net loss and net margin

Net loss was US\$44.6 million in the six months ended June 30, 2023, narrowed by 50.9% compared to US\$90.8 million in the same period of 2022. Non-GAAP net loss was US\$2.2 million in the six months ended June 30, 2023, narrowed by 96.0% compared to US\$56.0 million in the same period of 2022. Within this period, the first quarter of 2023 showed a non-GAAP net loss of US\$3.7 million, significantly improved by 90.0% compared to the same period of 2022, and the second quarter of 2023 showed a non-GAAP net profit of US\$1.5 million, further improved by 108.1% compared to the same period of 2022, marking it the first quarter in which the Group has achieved break-even profitability on a non-GAAP basis.

The differences between loss from operation and net loss in the six months ended June 30, 2023 was primarily because of a US\$23.6 million interest income achieved mainly due to well implemented treasury strategies on the Group's cash and deposits recorded as short-term investments.

Net margin was negative 42.7% in the six months ended June 30, 2023, up 34.4 percentage points from negative 77.1% in the same period of 2022, and non-GAAP net margin was negative 2.1% in the six months ended June 30, 2023, up 45.4 percentage points from negative 47.5% in the same period of 2022.

Basic and diluted net loss per ADS

Basic and diluted net loss per ADS were US\$0.08 in the six months ended June 30, 2023, compared to US\$0.16 in the same period of 2022. Each ADS represents one Class A Ordinary Share of the Company. Non-GAAP basic and diluted net loss per ADS in the six months ended June 30, 2023 were approximately US\$0.00, compared to US\$0.10 in the same period of 2022.

Cash and cash equivalents, and short-term investments

Cash and cash equivalents, and short-term investments were US\$942.3 million as of June 30, 2023, which the Group believes is sufficient to meet its liquidity and working capital needs.

Net Cash Used in Operating Activities

Net cash used in operating activities was US\$11.4 million in the six months ended June 30, 2023, down 80.0% compared to US\$57.0 million of net cash used in operating activities in the same period of 2022. Notably, within this period, net cash generated in operating activities for the second quarter of 2023 was US\$7.5 million, up 1,769.1% compared to US\$0.4 million in the second quarter of 2022. The net cash used in operating activities in the six months ended June 30, 2023 decreased mainly due to the decrease in operating expenses, particularly employee related costs, and working capital changes in the ordinary course of business.

LIQUIDITY AND CAPITAL RESOURCES

The Group has been incurring losses from operations since inception. The Group incurred net losses of US\$44.6 million and US\$90.8 million for the six months ended June 30, 2023 and 2022, respectively. Accumulated deficit amounted to US\$559.1 million as of June 30, 2023. Net cash used in operating activities was US\$11.4 million and US\$57.0 million for the six months ended June 30, 2023 and 2022, respectively.

Management Discussion and Analysis

The Group's liquidity is based on its ability to enhance its operating cash flow position, obtain capital financing from equity interest investors to fund its general operations, research and development activities and capital expenditures. The Group's ability to continue as a going concern is dependent on management's ability to execute its business plan successfully, which includes increasing market acceptance of its products to boost sales volume to achieve economies of scale or strengthen its technology capabilities to provide advanced products with higher value proposition while applying more effective marketing strategies and cost control measures to better manage operating cash flow position and obtaining funds from outside sources of financing to generate positive financing cash flows. In March and April 2021, with the completion of its initial public offering on NYSE and the exercise of the over-allotment option by underwriters, the Company received net proceeds, after deducting the underwriting discounts and commissions, fees and offering expenses, of US\$904.7 million. On July 5, 2022, the Class A Ordinary Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange. In connection with the Listing, 7,300,000 new Class A Ordinary Shares of the Company were issued and allotted at the offer price of HK\$19.3 per Class A Ordinary Share. Net proceeds from the global offering, after deducting the underwriting fees and commissions, were approximately HK\$70.0 million, and no over-allotment option was exercised.

As of June 30, 2023, the balance of cash and cash equivalents and short-term investments was US\$942.3 million (as of December 31, 2022: US\$954.3 million).

INTEREST-BEARING BANK AND OTHER BORROWINGS

As of June 30, 2023, the Group did not have any interest-bearing bank and other borrowings.

PLEDGE OF ASSETS

As of June 30, 2023, the Group did not have any pledge of assets.

GEARING RATIO

Gearing ratio equals total debt divided by total equity as of the end of the period. Total debt is defined to include short-term borrowings, current portion of long-term borrowings and long-term borrowings which are all interest-bearing borrowings. As of June 30, 2023, the gearing ratio of the Group was nil as the Group had no borrowings (as of December 31, 2022: nil).

MATERIAL INVESTMENTS

For the six months ended June 30, 2023, the Group did not have any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of June 30, 2023) except for time deposits of US\$853.8 million presented as short-term investment. As of June 30, 2023, the Group did not have other plans for material investments and capital assets.

CAPITAL EXPENDITURE COMMITMENTS

As of June 30, 2023, the Group did not have any capital expenditure commitments.

CONTINGENT LIABILITIES

As of June 30, 2023, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not conduct any material acquisitions and disposals for the six months ended June 30, 2023.

RISK MANAGEMENT

Foreign Exchange Risk

The revenue of the Group is predominantly denominated in RMB and a substantial portion of the Group's expenses is also denominated in RMB. The Group uses United States dollar as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Cayman Islands and Hong Kong is the United States dollar, while the functional currency of the Group's other subsidiaries and consolidated affiliated entities is their respective local currency as determined based on the criteria of ASC 830, Foreign Currency Matters. The financial statements of its subsidiaries and consolidated affiliated entities using functional currencies other than U.S. dollar, such as RMB, are translated to the U.S. dollar. As a result, as RMB depreciates or appreciates against the U.S. dollar, the Group's revenue presented in U.S. dollar will be negatively or positively affected. The Group does not believe that it currently has any significant direct foreign exchange risk arising from its operating activities. As of June 30, 2023, the Group did not hold any financial instruments for hedging purposes.

Interest Rate Risk

The Group's exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. The Group has not used any derivative financial instruments to manage its interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. The Group has not been exposed, nor does the Group anticipate being exposed, to material risks due to changes in interest rates. However, the Group's future interest income may be lower than expected due to changes in market interest rates.

EMPLOYEES AND REMUNERATION POLICIES

The following table sets forth the breakdown of the Group's salaried employees by function as of June 30, 2023:

Function	Number of Employees
Research and development	1,224
Sales and marketing	348
General and administrative, and others	122
Total	1,694

The Group primarily recruits the employees by its recruitment specialists at human resources department through referrals and online channels, including the Company's corporate website and social networking platforms. The Group has adopted a series of training policies and tailor-made lessons, pursuant to which technology, corporate culture, leadership, and other trainings are regularly provided to the Group's employees by internal speakers and third-party consultants. The Group offers its employees competitive compensation packages based on their performance and measured against specified objective criteria, and a dynamic work environment that encourages initiative. The Group participates in various government statutory employee benefit plans, including social insurance, namely pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and housing funds. In addition, the Group participates in a supplemental employee commercial healthcare insurance program effective on December 23, 2022, aiming to promote healthy work and healthy life of employees.

Business Review and Outlook

BUSINESS REVIEW

First time Achievement of Non-GAAP Quarterly Breakeven

The second quarter of 2023 marked a significant milestone for us. For the first time in our Company's history, the Company achieved a quarterly break-even and recorded a modest profit on a non-GAAP basis of approximately US\$1.5 million, translating to a non-GAAP net margin of around 2.7%. Moreover, we achieved a positive operational cash flow for the quarter, bringing in about US\$7.5 million. The move into positive non-GAAP profitability and the expansion of positive operating cash flow both signify our growing capacity to self-sustain in our overall day-to-day operations. These accomplishments attest to the dedication of our team and the strategic operational adjustments we have implemented over the last two years, and the tireless efforts of our entire team. The Company will continue to strive to focus on further refining our operations, both structurally and functionally, seeking avenues to enhance efficiency and reduce costs to ensure consistent financial performance.

In the first half of 2023, our total revenue continued to achieve sequential quarter-over-quarter growth. However, it declined year-over-year, largely influenced by currency translation challenges due to the currency fluctuation, particularly the weakening of the RMB against the US\$. Global consumer demand has yet to fully rebound, and the cautious operating strategies adopted by downstream businesses during their destocking cycles persist, thereby impacting the first half of the year. Gross margins of each of our business lines remained steady, with the overall gross margin structurally advancing to a historical high of 46.7% in the second quarter of 2023. Operationally, our non-GAAP operating expenses continued a sequential reduction, underscoring our stringent cost budgeting across all functions. Furthermore, both our per headcount revenue and gross profit reached historical highs in the second quarter.

Business Updates

In terms of our business strategies, the Company continued to firmly execute our key strategies of high-quality customer focusing, IoT cloud development platform improvement, and continual product enhancement.

The value of the Tuya IoT platform continues to attract top-tier customers. In early June, we signed a cooperation agreement with Haier Group's new energy brand, NAHUI New Energy Technology. Together, we aim to jointly develop smart devices for home energy management, including photovoltaic ("PV"), storage, charging devices and heat pumps, and build a smart home energy management platform.

While further enhancing the IoT developer experience, we are also exploring opportunities and value beyond consumer electronics with developers and enterprises. For example, the energy-saving sector, with its practical and sustainable features, are garnering significant attention from global enterprise customers today. In light of this, we showcased Tuya smart residential PV energy storage solution at AWE ("Appliance & Electronics World Expo"). Additionally, we have seamlessly integrated these modular capabilities into our SaaS solution offerings, empowering small and medium-sized businesses and developers to easily achieve a green, energy-efficient indoor environment.

We adhere to the software and hardware enhancement strategy of products, offering the dual model of IoT PaaS and smart device solution, giving our customers a broad spectrum of choices. For example, KA ("Key Account") customers can leverage the IoT PaaS model, incorporating operating system, Cloud, and App SDK, in accordance with their unique business needs and organizational characteristics, facilitating a more autonomous business development. Concurrently, certain cross-sector multinational corporations, SaaS service providers, and integrators can choose smart device solution for a streamlined and expedited market entry, which in turn further drive the sustained generation of software revenue.

Business Review and Outlook

As an important component of our software and hardware enhancement strategy, our smart device distribution business's gross margin has been consistently rising since the strategic adjustment. Our flagship products solutions, such as Zigbee gateways, and central control screens, contributed to the meaningful comprehensive smart device gross profit through the IoT hardware solution model.

In the SaaS and others segment, we are committed to providing more integrated software and value-added service products, with a focus on serving strategic-level customers. For instance, we have partnered with a leading real estate development group in Thailand, through our integrated solution combining "real estate smart home SaaS capabilities, full device categories, and Cube smart private cloud deployment". Moving forward, we will support them in building their own independent IoT platform for their smart home and community businesses. Several benchmark cases of Cube smart private cloud product from the previous year had been successfully accepted by customers in the first half of 2023, resulting in meaningful software revenue recognition. These projects have also established a bridge and created opportunities for further collaboration between Tuya and these large-scale professional industry groups in the IoT business.

In addition, it is worth noting that in May, Tuya officially became the world's only company to offer support for both Vendor Identification ("**VID**") and Non-VID scoped Product Attestation Authority ("**PAA**") within the Matter full-stack solution. This allows us to sign Product Attestation Intermediates ("**PAI**") for any eligible alliance member's VID. As a result, Tuya is capable of not only reducing the certification cost of Matter device for developers, facilitating an autonomous and controllable authentication process, but also assisting developers to expedite time-to-market for their products. Moreover, Tuya also provides comprehensive lifecycle management for PAA certification, enabling developers to focus on device development while enjoying an unparalleled seamless development experience.

Overall, during the first half of 2023, the consumer electronic sector continued to face the residual pressures of high inflation and the associated inventory implications. However, there are encouraging signs globally. For example, inflation rates in Europe and the U.S. have dropped to their lowest in over two years. Anticipated sales for several IoT smart device categories are trending towards positive year-over-year growth. Drawing from these positive external trends and our internal operational status, we believe that we have navigated through the toughest times, and our leaner and more focused operational model also gives us the confidence to pursue ongoing improvements in our financial performance. As we look ahead, we are looking forward to a future of sustained and steady growth.

OUTLOOK

With further relief in global inflation, discretionary consumer spending in the consumer electronic industry worldwide is expected to gradually navigate out of the headwinds experienced over the past two years. While some of the challenges persist, we are beginning to observe encouraging signs of recovery in various areas. For instance, inventory backlog experienced by downstream participants in the supply chain is steadily easing, and spending in many types of consumer electronic devices is showing a rebound. Although high global inflation may have lasting effects on consumer habits and business operations, a shift in consumer spending preference towards necessities and more economical purchases, combined with businesses seeking greater stability and sustainability, bring new opportunities with enterprises centred around offering value-driven technologies and solutions.

In response to this evolving market environment, the Group will remain committed to continuously iterating its products and services, further enhancing software and hardware capabilities, expanding key customer base, investing in innovations and new opportunities, diversifying revenue streams, and further optimizing operating efficiency. At the same time, the Group remains cognizant that future trajectories may yet present challenges, ranging from consumer spending patterns and regional economic disparities to inventory management, foreign exchange rate volatility, and broader geopolitical uncertainties.

CORPORATE GOVERNANCE

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

WEIGHTED VOTING RIGHTS

The Company is controlled through weighted voting rights. Under this structure, the Company's share capital comprises Class A Ordinary Shares and Class B Ordinary Shares. Each Class A Ordinary Share entitles the holder to exercise one vote, and each Class B Ordinary Share currently entitles the holder to exercise ten votes, on any resolution tabled at the Company's general meetings, except for resolutions with respect to the Reserved Matters, in relation to which each Share is entitled to one vote.

The WVR Structure of the Company enables the WVR Beneficiaries to exercise voting control over the Company notwithstanding that they do not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control the Company with a view to its long-term prospects and strategy.

Investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR Beneficiaries may not necessarily always be aligned with those of the Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of the Company and the outcome of Shareholders' resolutions. Investors should make the decision to invest in the Company only after due and careful consideration.

As of the Latest Practicable Date, the WVR Beneficiaries are Mr. Wang and Mr. Chen. Mr. Wang, through Tuya Group Inc. (which is wholly-owned by Mr. Wang), Tenet Group and Tenet Vision (both of which are wholly-owned by Tenet Global which is in turn wholly-owned by Tenet Smart, and Tenet Smart is wholly-owned by TMF (Cayman) Ltd. as the trustee of Mr. Wang's Family Trust, of which the settlor is Mr. Wang and the beneficiaries are Mr. Wang and Tuya Group Inc.), has been controlling 70,100,000 Class A Ordinary Shares and 43,500,000 Class B Ordinary Shares. As of the Latest Practicable Date, Mr. Chen through Unileo, his wholly-owned intermediary holding company, has been controlling 1,900,000 Class A Ordinary Shares and 26,900,000 Class B Ordinary Shares.

Without taking into account the voting rights attached to the 18,783,939 Class A Ordinary Shares (as of the Latest Practicable Date) held by the Depositary which may be used to satisfy any future exercise or vesting of awards granted under the 2015 Equity Incentive Plan, Mr. Wang and Mr. Chen beneficially own and control, through their intermediaries, an aggregate of 72,000,000 Class A Ordinary Shares and 70,400,000 Class B Ordinary Shares, representing (a) approximately 24.73% of the Company's issued Shares; (b) approximately 25.57% of the effective voting rights with respect to shareholder resolutions relating to Reserved Matters, on the basis that each Share entitles the Shareholder to one vote per share; and (c) approximately 65.18% of the effective voting rights, on the basis that Class A Ordinary Shares entitle the Shareholder to one vote per share and Class B Ordinary Shares entitle the Shareholder to ten votes per share.

Class B Ordinary Shares may be converted into Class A Ordinary Shares on a one to one ratio. As of the Latest Practicable Date, upon the conversion of all the issued and outstanding Class B Ordinary Shares into Class A Ordinary Shares, the Company will issue 70,400,000 Class A Ordinary Shares, representing approximately 12.23% of the total number of issued and outstanding Class A Ordinary Shares (as enlarged by such Class A Ordinary Shares).

Corporate Governance

The weighted voting rights attached to the Class B Ordinary Shares will cease when the WVR Beneficiaries no longer have beneficial ownership of, or economic interest in, or control over the voting rights attached to any of the Class B Ordinary Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiaries are: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Hong Kong Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Hong Kong Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;
- (ii) when the holders of Class B Ordinary Shares have transferred to another person the beneficial ownership of, or economic interest in the Class B Ordinary Shares or the control over the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (iii) where a vehicle holding Class B Ordinary Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or
- (iv) when all of the Class B Ordinary Shares have been converted to Class A Ordinary Shares.

The weighted voting rights attached to the Class B Ordinary Shares beneficially owned or controlled by Mr. Chen and any affiliate of Mr. Chen (including any person that directly or indirectly, controls, is controlled by or is under common control with Mr. Chen) will also cease when Mr. Chen ceases to be an executive officer or employee of the Company (e.g. if Mr. Chen is re-designated as a non-executive Director or he ceases to assume any role with executive or management function in the Company or he ceases to have any employment relationship with the Company which remains effective).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended June 30, 2023, the Company has complied with all the code provisions of the Corporate Governance Code set forth in Appendix 14 to the Listing Rules, save and except for the following.

Pursuant to code provision C.2.1 of the Corporate Governance Code, companies listed on the Hong Kong Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. The Company deviates from this code provision because Mr. Wang performs both the roles of a co-chairman of the Board and the chief executive officer of the Company. Mr. Wang is a founder of the Group and has extensive experience in the business operations and management of the Group. The Board believes that, in view of Mr. Wang's experience, personal profile and his roles in the Company as mentioned above, Mr. Wang is the Director best suited to identify strategic opportunities, ensure the consistent leadership within the Company, and focus on the Board due to his extensive understanding of the Company's business as the chief executive officer of the Company. The Board also believes that the combined roles of both chairman and chief executive officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board.

Corporate Governance

The Board considers that the balance of power and authority will not be impaired due to this arrangement. The reasons are: (i) all major decisions are made in consultation with members of the Board, including the relevant Board committees, and four independent non-executive Directors; (ii) Mr. Wang and the other Directors acknowledge and undertake to fulfil their fiduciary duties as directors, which require them, among other things, to act in the interests of the Company in a manner that is in the best interests of the Company and to make decisions for the Group accordingly; and (iii) the Board is made up of experienced and talented people who meet regularly to discuss matters affecting the operations of the Company to ensure a balance of power and authority. In addition, the Group's overall strategic and other major businesses, financial and operational policies have been formulated jointly by the Board and senior management after detailed discussion.

The Board will continue to review and may recommend separating the roles of chairman of the Board and the chief executive officer of the Company in the future if and when it is appropriate, taking into account the circumstances of the Group as a whole.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code for the six months ended June 30, 2023.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who, because of such office or employment, are likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Compensation Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written charter. The charters of the Board committees are available on the websites of the Company and the Hong Kong Stock Exchange.

AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code.

The primary duties of the Audit Committee are, among other things, to monitor the integrity of our financial statements and internal controls, oversee our compliance with legal and regulatory requirements in relation to financial statements and accounting matters, review our policies and practices with respect to risk assessment and risk management, review the adequacy of our internal control over financial reporting, review the fairness and appropriateness of all related party transactions, and make recommendations to the Board on the appointment, reappointment and removal of the external auditor.

Corporate Governance

The Audit Committee comprises three independent non-executive Directors, being Mr. HUANG Sidney Xuande, Mr. KUOK Meng Xiong (alias GUO Mengxiong) and Mr. YIP Pak Tung Jason, with Mr. HUANG Sidney Xuande (being the independent non-executive Director with the appropriate professional qualifications) as the chairman of the Audit Committee. Mr. QIU Changheng, an independent non-executive Director, has ceased to be a member of the Audit Committee with effect from June 20, 2023. On the same day, Mr. YIP Pak Tung Jason, an independent non-executive Director, has been appointed as a member of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements and interim results of the Group for the Reporting Period, and there is no disagreement between the Board and the Audit Committee regarding the accounting treatment adopted by the Company. The Audit Committee has met with the independent auditor of the Company (the “**Auditor**”), PricewaterhouseCoopers, and has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control and financial reporting matters.

In addition, the independent auditor of the Company, PricewaterhouseCoopers, has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2023 in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

COMPENSATION COMMITTEE

The Company has established a Compensation Committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code.

The primary duties of the Compensation Committee are, among other things, to review and make recommendations to the Board with respect to policy and structure for all directors’ and senior management’s remuneration, review and approve remuneration proposals with reference to the Board’s corporate goals and objective, review and approve the compensation payable to our Directors and senior management for any loss or termination of office or appointment, review our management succession planning as well as evaluation of and development plans for potential successors to the executive officers, review and submit for Board’s approval of our executive compensation and benefits policies, and review and assess risks arising from our employee compensation policies and practices consider time commitment and responsibilities and employment conditions.

The Compensation Committee comprises three Directors, being Mr. Wang, Mr. QIU Changheng and Mr. KUOK Meng Xiong (alias GUO Mengxiong), with Mr. QIU Changheng as the chairman of the Compensation Committee.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in compliance with Rule 8A.27 of the Listing Rules and the Corporate Governance Code.

The primary duties of the Nomination Committee are, among other things, to review and evaluate the size, composition, function and duties of the Board, recommend criteria for the selection of candidates to the Board and its committees and identify qualified individuals, recommend to the Board the persons to be nominated for election at the next annual or special meeting of Shareholders at which Directors are to be elected or to fill any vacancies or newly created directorships that may occur between such meeting and recommend Directors for appointment to Board committees, and make recommendations to the Board as to determinations of Director independence and oversee the evaluation of the Board.

Corporate Governance

The Nomination Committee comprises three Directors, being Mr. Chen, Mr. QIU Changheng and Mr. KUOK Meng Xiong (alias GUO Mengxiong), with Mr. QIU Changheng as the chairman of the Nomination Committee.

CORPORATE GOVERNANCE COMMITTEE

The Company has established a Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules and the Corporate Governance Code.

The primary duties of the Corporate Governance Committee are, among other things, to review our actions in furtherance of our corporate social responsibility and corporate governance principles, develop and recommend to the Board the Code of Business Conduct and Ethics, ensure that the Company is operated and managed for the benefit of all the Shareholders, and ensure our compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company.

The Corporate Governance Committee comprises two independent non-executive Directors, being Mr. QIU Changheng and Mr. KUOK Meng Xiong (alias GUO Mengxiong), with Mr. QIU Changheng as the chairman of the Corporate Governance Committee.

The Corporate Governance Committee will be required to confirm to the Board it is of the view that the Company has adopted sufficient corporate governance measures to manage the potential conflict of interest between the Group and the beneficiaries of weighted voting rights in order to ensure that the operations and management of the Company are in the interests of the Shareholders as a whole indiscriminately.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As of June 30, 2023, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Interest in Shares and Underlying Shares of the Company

Name	Nature of Interest	Number and class of Shares held	Approximate percentage of interest in each relevant class of Shares ⁽¹⁾
			(%)
Mr. Wang	Beneficial owner, interest in controlled corporation, founder and beneficiary of a trust	75,200,000 Class A Ordinary Shares (L) ⁽²⁾⁽³⁾	14.88
	Interest in controlled corporation, founder and beneficiary of a trust	43,500,000 Class B Ordinary Shares (L) ⁽³⁾	61.79
Mr. Chen	Interest in controlled corporation	1,900,000 Class A Ordinary Shares (L) ⁽⁴⁾	0.38
	Interest in controlled corporation	26,900,000 Class B Ordinary Shares (L) ⁽⁴⁾	38.21
Mr. Yang	Beneficial owner	6,500,000 Class A Ordinary Shares (L) ⁽⁵⁾	1.29
Ms. LIU Yao	Beneficial owner	5,000,000 Class A Ordinary Shares (L) ⁽⁶⁾	0.99
Ms. HONG Jing <i>(retired and ceased to be a director with effect on June 20, 2023)</i>	Interest in controlled corporation	12,222,267 Class A Ordinary Shares (L) ⁽⁷⁾	2.42
Mr. HUANG Sidney Xuande ⁽⁸⁾	Beneficial owner, Interest of spouse	407,500 Class A Ordinary Shares (L) ⁽⁸⁾⁽⁹⁾	0.08
Mr. QIU Changheng	Beneficial owner	9,500 Class A Ordinary Shares (L)	0.002

Other Information

Notes:

- (1) The calculation is based on the total number of 505,393,393 Class A Ordinary Shares and 70,400,000 Class B Ordinary Shares in issue as of June 30, 2023. The letter "L" stands for long position.
- (2) Mr. Wang is entitled to receive up to 5,100,000 Class A Ordinary Shares, pursuant to the share options granted to him, subject to the conditions (including vesting conditions) of those options.
- (3) Each of Tenet Group and Tenet Vision is wholly-owned by Tenet Global, which is in turn wholly-owned by Tenet Smart. Tenet Smart is wholly-owned by TMF (Cayman) Ltd. as the trustee of Mr. Wang's Family Trust, of which the settlor is Mr. Wang and the beneficiaries are Mr. Wang and Tuya Group Inc. Tuya Group Inc. is wholly-owned by Mr. Wang.

As such, Mr. Wang is deemed to be interested in the 68,697,000 Class A Ordinary Shares held by Tenet Group, 34,903,000 Class B Ordinary Shares held by Tenet Vision, 1,403,000 Class A Ordinary Shares and 8,597,000 Class B Ordinary Shares held by Tuya Group Inc.
- (4) Unileo is wholly-owned by Mr. Chen. As such, Mr. Chen is deemed to be interested in the 1,900,000 Class A Ordinary Shares and 26,900,000 Class B Ordinary Shares held by Unileo.
- (5) Mr. Yang is entitled to receive up to 6,500,000 Class A Ordinary Shares, pursuant to the share options granted to him, subject to the conditions (including vesting conditions) of those options.
- (6) Ms. LIU Yao is entitled to receive up to 5,000,000 Class A Ordinary Shares, pursuant to the share options granted to her, subject to the conditions (including vesting conditions) of those options.
- (7) GTY Holdings Limited, a limited liability incorporated in the Cayman Islands on November 17, 2020, is controlled by an investment fund, the general partner of which is Gaocheng Holdings GP Ltd. Gaocheng Holdings GP Ltd. is controlled by Ms. HONG Jing. As such, Ms. HONG Jing is deemed to be interested in the 12,222,267 Class A Ordinary Shares held by GTY Holdings Limited. Ms. HONG Jing has retired and ceased to be a director of the Company on June 20, 2023.
- (8) Mr. HUANG Sidney Xuande has been granted RSUs representing a total of 400,000 Class A Ordinary Shares or ADS in equivalent amount, subject to the conditions (including vesting conditions) of those RSUs.
- (9) Mr. HUANG Sidney Xuande is deemed to be interested in the 7,500 Class A Ordinary Shares represented by ADSs held by Ms. YANG Xu (HUANG Sidney Xuande's wife).

Interest in Associated Corporations

Name	Nature of Interest	Associated corporations	Amount of registered capital (RMB)	Approximate percentage of interest in the associated corporation (%)
Mr. Wang	Beneficial owner	Hangzhou Tuya Technology	6,069,000 (L)	60.69
Mr. Chen	Beneficial owner	Hangzhou Tuya Technology	1,310,000 (L)	13.10

Note: The letter "L" stands for long position.

Other Information

Save as disclosed above, as of June 30, 2023, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2023, the following persons (other than the Directors and chief executives whose interests have been disclosed in this report), had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Capacity/Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding in each class of Shares ⁽¹⁾ (%)
Class A Ordinary Shares			
New Enterprise Associates 14, L.P. ⁽²⁾	Beneficial owner	109,744,738 (L)	21.71
NEA Partners 14 L.P. ⁽²⁾	Interest in controlled corporation	109,744,738 (L)	21.71
NEA 14 GP, LTD ⁽²⁾	Interest in controlled corporation	109,744,738 (L)	21.71
Tencent Mobility Limited ⁽³⁾	Beneficial owner	55,924,749 (L)	11.07
Tencent ⁽³⁾	Interest in controlled corporation	58,299,749 (L)	11.54
Tenet Group ⁽⁴⁾	Beneficial owner	68,697,000 (L)	13.59
Tenet Global ⁽⁴⁾	Interest in controlled corporation	68,697,000 (L)	13.59
Tenet Smart ⁽⁴⁾	Interest in controlled corporation	68,697,000 (L)	13.59
TMF (Cayman) Ltd. ⁽⁴⁾	Trustee	68,697,000 (L)	13.59
Tuya Group Inc. ⁽⁴⁾	Beneficial owner	1,403,000 (L)	0.28
	Beneficiary of a trust	68,697,000 (L)	13.59
The Bank of New York Mellon Corporation ⁽⁵⁾	Interest in controlled corporation	125,211,989 (L)	24.78
		125,050,663 (S)	24.74
Class B Ordinary Shares			
Tenet Vision ⁽⁴⁾	Beneficial owner	34,903,000 (L)	49.58
Tenet Global ⁽⁴⁾	Interest in controlled corporation	34,903,000 (L)	49.58
Tenet Smart ⁽⁴⁾	Interest in controlled corporation	34,903,000 (L)	49.58
TMF (Cayman) Ltd. ⁽⁴⁾	Trustee	34,903,000 (L)	49.58
Tuya Group Inc. ⁽⁴⁾	Beneficial owner	8,597,000 (L)	12.21
	Beneficiary of a trust	34,903,000 (L)	49.58
Unileo ⁽⁶⁾	Beneficial owner	26,900,000 (L)	38.21

Notes:

- (1) The calculation is based on the total number of 505,393,393 Class A Ordinary Shares and 70,400,000 Class B Ordinary Shares in issue as of June 30, 2023. The letter “L” stands for long position and the letter “S” stands for short position.
- (2) The sole general partner of New Enterprise Associates 14, L.P. is NEA Partners 14 L.P. The sole general partner of NEA Partners 14 L.P. is NEA 14 GP, LTD. As such, NEA Partners 14 L.P. and NEA 14 GP, LTD. are interested in the 109,744,738 Class A Ordinary Shares held by New Enterprise Associates 14, L.P.
- (3) Tencent Mobility Limited and Image Frame Investment (HK) Limited are wholly-owned by Tencent. As such, Tencent is deemed to be interested in the 55,924,749 Class A Ordinary Shares held by Tencent Mobility Limited and 2,375,000 Class A Ordinary Shares represented by ADSs owned by Image Frame Investment (HK) Limited.
- (4) Each of Tenet Group and Tenet Vision is wholly-owned by Tenet Global, which is in turn wholly-owned by Tenet Smart. Tenet Smart is wholly-owned by TMF (Cayman) Ltd. as the trustee of Mr. Wang’s Family Trust, of which the settlor is Mr. Wang and the beneficiaries are Mr. Wang and Tuya Group Inc. Tuya Group Inc. is wholly-owned by Mr. Wang.

Therefore, Tuya Group Inc. (being a beneficiary of Mr. Wang’s Family Trust), Tenet Global, Tenet Smart and TMF (Cayman) Ltd are deemed to be interested in 68,697,000 Class A Ordinary Shares held by Tenet Group. Tuya Group Inc. also holds 8,597,000 Class B Ordinary Shares and is deemed to be interested in 34,903,000 Class B Ordinary Shares held by Tenet Vision. Tuya Group Inc. also holds 1,403,000 Class A Ordinary Shares.
- (5) The Bank of New York Mellon is wholly-owned by The Bank of New York Mellon Corporation. In addition, BNY Mellon Corporation Trustee Services Limited is wholly-owned by BNY International Financing Corporation, which is in turn wholly-owned by The Bank of New York Mellon. As such, The Bank of New York Mellon Corporation is deemed to be interested in the 125,057,996 (L) and 125,050,663 (S) Class A Ordinary Shares held by The Bank of New York Mellon and 153,993 (L) Class A Ordinary Shares held by BNY Mellon Corporation Trustee Services Limited.
- (6) Unileo is wholly-owned by Mr. Chen. As such, Mr. Chen is deemed to be interested in the 26,900,000 Class B Ordinary Shares held by Unileo.

Save as disclosed above, as of June 30, 2023, no person, other than the Directors and chief executives whose interests are set out in the section headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations” had an interest or short position in the Shares or underlying Shares which would fall to be recorded in the registry required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY INCENTIVE PLAN

The 2015 Equity Incentive Plan

The 2015 Equity Incentive Plan was adopted on December 23, 2014 and was further amended in July 2020, February 2021 and on June 15, 2022 (with such amendment taking effect from the Listing). The principal terms of the 2015 Equity Incentive Plan, as amended and currently in force, are as described below.

Purpose. The purpose of the 2015 Equity Incentive Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors, and consultants and to promote the success of our business.

Eligible participants. Any employee, Director or consultant of the Company who is engaged by the Group to render consulting or advisory services to the Group shall be eligible to participate in the 2015 Equity Incentive Plan.

Awards. The 2015 Equity Incentive Plan permits the awards of options, restricted shares, and RSUs approved by the plan administrator. At the discretion of the Board or the committee of the Board as administrator, ADSs in an amount equivalent to the number of Class A Ordinary Shares which otherwise would be distributed pursuant to an award may be distributed in lieu of Class A Ordinary Shares in settlement of any award.

Other Information

Exercise period. The exercise period of the options granted under the 2015 Equity Incentive Plan shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the 2015 Equity Incentive Plan and the share option award agreement signed by the grantee.

Vesting period. The vesting period (including any vesting acceleration thereof) for the options and/or awards granted under the 2015 Equity Incentive Plan shall be determined at the discretion of the Board or the committee of the Board as administrator. In the case of (i) employees and non-employees, the vesting period is generally measured over the requisite service period; and (ii) the PRC employees of the Group with only service conditions, accelerated full vesting schedule is allowed under limited circumstances. During the Reporting Period, the vesting period of options and/or awards granted under the 2015 Equity Incentive Plan ranges from 36 to 48 months from the grant date. For further details of the vesting period attached to options and awards granted during the Reporting Period (if any), please refer to the tables set forth on pages 24 to 26 of this report.

Maximum number of Class A Ordinary Shares. The overall limit on the number of the Shares underlying the awards pursuant to 2015 Equity Incentive Plan is 64,889,052 Class A Ordinary Shares, of which the total number of Class A Ordinary Shares which may be issued and/or transferred upon vesting or exercise of all options that may be granted pursuant to the 2015 Equity Incentive Plan and any other share award schemes of the Company in aggregate shall not exceed 10% of the total number of Class A Ordinary Shares in issue immediately upon the Listing (the “**Plan Limit**”), being 49,914,656 Class A Ordinary Shares.

Any equity awards in the form of options that were granted prior to the Listing under the 2015 Equity Incentive Plan (including those outstanding, cancelled, lapsed in accordance with the 2015 Equity Incentive Plan or exercised options) will not be counted for the purpose of the Plan Limit. The total number of Shares to be issued upon exercise of all outstanding options under the 2015 Equity Incentive Plan and all other schemes of the Company granted and yet to be exercised shall not exceed 30% of all the Class A Ordinary Shares in issue from time to time.

As at June 30, 2023, 56,661,052 Class A Ordinary Shares are available for issue and/or transfer upon vesting or exercise of all options and awards granted and may be granted under the 2015 Equity Incentive Plan, representing approximately 11.21% of the total number of Class A Ordinary Shares in issue as at June 30, 2023, and approximately 9.84% of the total number of all Shares (including Class A Ordinary Shares and Class B Ordinary Shares) in issue as at June 30, 2023; amongst the said 56,661,052 Class A Ordinary Shares, only up to 49,914,656 Class A Ordinary Shares are available for issue and/or transfer upon vesting or exercise of all options granted and may be granted, representing approximately 9.88% of the total number of Class A Ordinary Shares in issue as at June 30, 2023, and approximately 8.67% of the total number of all Shares (including Class A Ordinary Shares and Class B Ordinary Shares) in issue as at June 30, 2023.

The total number of options available for grant under the 2015 Equity Incentive Plan as of January 1, 2023 and June 30, 2023 are 49,914,656 and 49,914,656 respectively. The total number of options and awards available for grant under the 2015 Equity Incentive Plan as of January 1, 2023 and June 30, 2023 are 57,842,052 and 56,661,052, respectively. As at June 30, 2023, there is no service provider sublimit adopted under the 2015 Equity Incentive Plan.

Other Information

Given that all of the awards granted under the 2015 Equity Incentive Plan during the Reporting Period were funded by the Depositary Shares, there were no new Class A Ordinary Shares that was (or may be) issued in respect of the such awards granted during the Reporting Period.

Maximum entitlement of a grantee. Unless approved by the Shareholders in general meeting, the total number of Class A Ordinary Shares issued and to be issued and/or transferred and to be transferred upon the vesting or exercise of the options or awards granted to each participant in any 12-month period shall not (when aggregated with any Class A Ordinary Shares underlying the awards granted during such period under any other share award schemes of our Company) exceed 1% of the Class A Ordinary Shares in issue for the time being.

Exercise price for options and purchase price for awards. As regards options offered under the 2015 Equity Incentive Plan, the Board or the committee of the Board as administrator is entitled to determine the exercise price therefor, which shall not be lower than the fair market value per share on the date of grant, which shall not be less than the highest of (a) the closing sales price of the Class A Ordinary Shares as quoted on the principal exchange or system on which the Class A Ordinary Shares are listed (as determined by the Board or the Board committee delegated with authority to administer the 2015 Equity Incentive Plan) on the date of grant, (b) the average closing sales price as quoted on the principal exchange or system on which the Class A Ordinary Shares are listed for the five business days immediately preceding the date of grant. The maximum exercisable term is ten years from the date of grant. In the case of an option granted to a participant who, immediately prior to the time is granted, owns more than 10% of the total combined voting power of all classes of outstanding securities of the Company or parent company or subsidiary of the Company, the term of option shall not be exercisable after the expiration of five years from the date of grant. There is no additional amount payable on application or acceptance of the share option or award. There is no prescribed period within which payments or calls must or may be made or loans for such purposes must be repaid in respect of the options and/or awards offered under the 2015 Equity Incentive Plan.

Duration. Unless terminated earlier, the 2015 Equity Incentive Plan has a term of ten years. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Remaining life. As of June 30, 2023, the remaining life of the 2015 Equity Incentive Plan is approximately 1 year and 6 months. There is no specified period for which an offer for an option must be accepted by the relevant eligible participant from the date on which it is made, and no options shall generally be exercised after ten years from the date of grant.

Outstanding options. As of June 30, 2023, the number of underlying Shares pursuant to the outstanding options granted under the 2015 Equity Incentive Plan amounted to 53,907,363 Class A Ordinary Shares, representing approximately 9.36% of the issued Shares as of June 30, 2023.

Outstanding RSUs. As of June 30, 2023, the number of underlying Shares pursuant to the outstanding RSUs granted under the 2015 Equity Incentive Plan amounted to 11,044,625 Class A Ordinary Shares, representing approximately 1.92% of the issued Shares as of June 30, 2023.

Other Information

Outstanding restricted share(s) granted (if any). As of the June 30, 2023, no restricted share has been granted under the 2015 Equity Incentive Plan.

Other than the awards granted as disclosed in the movement table set out on pages 25 to 26 of this report, no share awards have been granted during the Reporting Period. In addition, the options granted under the 2015 Equity Incentive Plan which were exercised, vested, lapsed and/or cancelled during the Reporting Period were funded by the Depositary Shares.

Pursuant to Rule 17.03D(1) of the Listing Rules, during the Reporting Period and as of June 30, 2023, no grant of share options and awards to any one participant in aggregate exceeded 1% of the total of Class A Ordinary Shares and Class B Ordinary Shares in issue in any 12-month period up to and including the date of grant under the 2015 Equity Incentive Plan. No share option or award has been granted to any related entity participant or service provider under the 2015 Equity Incentive Plan.

Details of the movements of share options under the 2015 Equity Incentive Plan during the Reporting Period are as follows:

Category and name of grantee	Date of grant	Expiry date	Exercise price per Class A Ordinary Share underlying the options (US\$)	Vesting period ⁽¹⁾	Number of Class A Ordinary Shares underlying the relevant options					
					Outstanding as of January 1, 2023	Granted during the Reporting Period ⁽³⁾	Exercised during the Reporting Period ⁽²⁾	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as of June 30, 2023
Director(s) and chief executive(s)										
Director(s)										
Mr. Wang	February 21, 2021	February 20, 2031	0.2	4 years	5,100,000	-	-	-	-	5,100,000
Mr. Yang	August 6, 2015	August 5, 2025	0.2	4 years	3,000,000	-	-	-	-	3,000,000
	April 2, 2018	April 1, 2028	0.2	4 years	700,000	-	-	-	-	700,000
Ms. LIU Yao	January 5, 2021	January 4, 2031	0.2	4 years	2,800,000	-	-	-	-	2,800,000
	May 15, 2019	May 14, 2029	0.2	4 years	1,600,000	-	-	-	-	1,600,000
	April 27, 2020	April 26, 2030	0.2	4 years	400,000	-	-	-	-	400,000
	July 31, 2020	July 30, 2030	0.2	4 years	600,000	-	-	-	-	600,000
	January 5, 2021	January 4, 2031	0.2	4 years	400,000	-	-	-	-	400,000
	August 20, 2021	August 19, 2031	0.2	4 years	1,000,000	-	-	-	-	1,000,000
	September 16, 2021	September 15, 2031	0.2	4 years	1,000,000	-	-	-	-	1,000,000
Subtotal					16,600,000	-	-	-	-	16,600,000
Other employee participants										
435 employees	From March 5, 2015 to May 6, 2022	From March 4, 2025 to May 5, 2032	0.04135-2.88	3-4 years	39,674,213	-	1,999,350	-	367,500	37,307,363
Subtotal					39,674,213	-	1,999,350	-	367,500	37,307,363
Total					56,274,213	-	1,999,350	-	367,500	53,907,363

Other Information

Notes:

- (1) During the Reporting Period, no option was granted. In respect of the exercise period of the options under the 2015 Equity Incentive Plan, the exercise period of the options granted shall commence from the date on which the relevant options become vested and ended on the expiry date, subject to the terms of the relevant 2015 Equity Incentive Plan and the share option award agreement signed by the grantee. No options shall generally be exercised after ten years from the date of grant.
- (2) In respect of the exercised options which were funded by ADSs underlying Class A Ordinary Shares already issued and registered in the name of the Depository during the Reporting Period, the weighted average closing price of the ADSs quoted on the NYSE immediately before the date(s) on which the options were exercised was US\$1.97.
- (3) Refers to the number of Class A Ordinary Shares underlying the relevant options (funded by the Depository Shares) granted during the Reporting Period.
- (4) Save for those set out in this movement table, there are no grants of options to (i) any other Directors, chief executive or substantial Shareholders of the Company or their respective associates; (ii) any participant with options and awards in excess of the 1% individual limit; (iii) any related entity participant or service provider and, in each case, which are funded by new Shares of the Company or the Depository Shares under the 2015 Equity Incentive Plan.
- (5) All of the above grants were made prior to the amendment to Chapter 17 of the Listing Rules taking effect.

Details of the movements of awards under the 2015 Equity Incentive Plan during the Reporting Period are as follows:

Category and name of grantee	Date of grant	Expiry date	Vesting period ⁽¹⁾	Number of Class A Ordinary Shares underlying the relevant awards					
				Unvested awards as of January 1, 2023	Granted during the Reporting Period ^{(2), (3) and (7)}	Vested during the Reporting Period ⁽⁴⁾	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Unvested awards as of June 30, 2023
Director(s) and chief executives									
Director(s)									
Mr. Huang Sidney Xuande	July 5, 2022	July 4, 2029	4 years	400,000	-	-	-	-	400,000
Subtotal				400,000	-	-	-	-	400,000
Other employee participants									
530 employees	From June 16, 2021 to June 27, 2023	From June 15, 2028 to June 26, 2033	3-4 years	11,238,750	1,181,000	1,152,625	-	622,500	10,644,625
Subtotal				11,238,750	1,181,000	1,152,625	-	622,500	10,644,625
Total				11,638,750	1,181,000	1,152,625	-	622,500	11,044,625

Other Information

Notes:

- (1) During the Reporting Period, the vesting period of the awards granted under the 2015 Equity Incentive Plan was 36 to 48 months from the grant date. There is no purchase price attached to the unvested awards during the Reporting Period.
- (2) The fair value of awards are calculated in accordance with the accounting standard and policy adopted for preparing the Company's financial statements, namely the U.S. GAAP. For the description of the basis for fair value measurement and information on whether and how the features of the awards are incorporated into the measurement of fair value, please refer to Note 16 to the consolidated financial statements of the Company in page 59 of this report.
- (3) Refers to the number of Class A Ordinary Shares underlying the relevant awards (funded by the Depository Shares) granted during the Reporting Period.
- (4) The weighted average closing price of the ADSs quoted on the NYSE immediately before the date(s) on which the awards were vested was US\$1.95.
- (5) Save for the awards granted during the Reporting Period as described in Note 7 below, all of the above grants were made prior to the amendment to Chapter 17 of the Listing Rules taking effect.
- (6) Save for those set out in this movement table, there are no grants of awards under the 2015 Equity Incentive Plan to (i) any other Directors, chief executive or substantial Shareholders of the Company or their respective associates; (ii) any participant with options and awards granted in excess of the 1% individual limit; or (iii) any related entity participant or service provider and, in each case, which are funded by new Shares of the Company or the Depository Shares.
- (7) The following grants were made during the Reporting Period, of which no performance target and/or clawback mechanism or purchase price were attached thereto. All grantees under the grants made during the Reporting Period were employee participants of the Group. The vesting period of such awards granted during the Reporting Period ranges from 36 to 48 months from the grant date. There was no arrangement for the Company or any of its subsidiaries to provide financial assistance to such grantees to facilitate the purchase of shares under the 2015 Equity Incentive Plan. After the grant on March 30, 2023, 57,816,052 underlying Shares will be available for future grants under the 2015 Equity Incentive Plan. After the grant on June 27, 2023, 56,661,052 underlying Shares will be available for future grants under the 2015 Equity Incentive Plan.

Category and name of grantee	Date of grant	Granted during the Reporting Period	Closing price per ADS underlying the awards granted during the Reporting Period immediately before the grant date(s) quoted on the NYSE (US\$)	Closing price per ADS underlying the awards granted during the Reporting Period on the grant date(s) quoted on the NYSE (US\$)	Vesting period	Fair Value of the awards granted (funded by the Depository Shares) during the Reporting Period at the date of grant (US\$)
Other 530 employee participants						
	March 30, 2023	26,000	1.86	1.91	4 years from the date of grant	1.91
	June 27, 2023	1,155,000	1.78	1.79	3-4 years from the date of grant	1.79
Subtotal		1,181,000				
Total		1,181,000				

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On November 9, 2022, the Company announced a US\$50 million share repurchase program authorized by the Board. During the Reporting Period, the Company repurchased approximately 0.7 million of ADSs representing the same number of Class A Ordinary Shares of the Company from the open market for a total consideration of approximately US\$1.2 million pursuant to the aforesaid share repurchase program.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange during the Reporting Period. Saved as disclosed above, there was no transaction in the Company's securities, or securities of its subsidiaries (in each case, in the nature of (1) convertible securities, warrants or similar rights issued or granted; (2) exercise of any conversion or subscription rights attached to the aforesaid; or (3) redemption, purchase or cancellation of redeemable securities) during the Reporting Period.

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION PURSUANT TO LISTING RULE 13.51B(1)

References are made to (1) the announcement of the Company dated June 20, 2023 in relation to, inter alia, (i) the retirement of Ms. HONG Jing as a non-executive director of the Company, (ii) Mr. QIU Changheng ceasing to be a member of the Audit Committee; and (iii) Mr. YIP Pak Tung Jason having been appointed as a member of the Audit Committee, each with effect from June 20, 2023; and (2) the announcement of the Company dated July 26, 2023 (Hong Kong time) in relation to the Lawsuit.

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company sets forth below the change in information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the Reporting Period:

- (1) Ms. HONG Jing retired as non-executive Director with effect from June 20, 2023;
- (2) Mr. QIU Changheng ceased to be a member of the Audit Committee with effect from June 20, 2023;
- (3) Mr. YIP Pak Tung Jason was appointed as a member of the Audit Committee with effect from June 20, 2023;
- (4) Mr. YANG Yi, an executive Director, received service of process in relation to the Lawsuit filed in the United States District Court for the Southern District of New York; and
- (5) Ms. LIU Yao, an executive Director and the Chief Financial Officer, received service of process in relation to the aforesaid Lawsuit.

Other than the aforesaid changes, during the Reporting Period, there has been no change to the information of the Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. Further details on the Lawsuit has been set forth in the sub-section headed "*Material Litigation*" in page 30 this report.

Other Information

INTERIM DIVIDEND

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2023.

COMPLIANCE WITH APPENDIX 16 OF THE LISTING RULES

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed in this report, the Company confirmed that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules has not changed materially from the information disclosed in the Company's annual report for the year ended December 31, 2022.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On July 5, 2022, the Class A Ordinary Shares were listed on the Main Board of the Hong Kong Stock Exchange. The net proceeds from the Global Offering amounted to approximately HK\$70 million, which will be applied for the following purposes:

- Approximately 30% is expected to be used over the course of the next five years to enhance our IoT technologies and infrastructure.
- Approximately 30% is expected to be used over the course of the next five years to expand and enhance our product offerings.
- Approximately 15% is expected to be used over the course of the next five years for marketing and branding activities.
- Approximately 15% will be used over the course of the next five years to pursue strategic partnerships, investments and acquisitions to implement our long-term growth strategies.
- Approximately 10% will be used over the course of the next five years for general corporate purposes and working capital needs.

Regarding net proceeds that had not been utilized, the Company intends to use them in the same manner, allocations and proportions as stated in the Prospectus. The completion time of utilizing the net proceeds will be determined based on the future business development of the Company. During the Reporting Period, the Company had utilized the net proceeds as set out in the table below:

Other Information

	Percentage of the total net proceeds raised from the Listing Approximate (%)	Planned use of proceeds in the same manner and proportion as stated in the Prospectus Approximate (HK\$ million)	Actual use of proceeds during the Reporting Period Approximate (HK\$ million)	Net proceeds unutilized as of June 30, 2023 Approximate (HK\$ million)	Expected timeframe for utilizing the remaining unutilized net proceeds
To enhance our IoT technologies and infrastructure.	30%	21.0	4.2	16.8	Over the course of the next four years
To expand and enhance our product offerings.	30%	21.0	4.2	16.8	Over the course of the next four years
For marketing and branding activities.	15%	10.5	2.1	8.4	Over the course of the next four years
To pursue strategic partnerships, investments and acquisitions to implement our long-term growth strategies.	15%	10.5	2.1	8.4	Over the course of the next four years
For general corporate purposes and working capital needs.	10%	7.0	–	7.0	Over the course of the next four years
Total	100%	70.0	12.6	57.4	

To the extent that net proceeds are not immediately used for the intended use and to the extent permitted by the relevant law and regulations, the Company will only place the net proceeds as short-term deposits only at licensed banks or financial institutions located in the PRC.

Other Information

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the six months ended June 30, 2023 which could have a material and adverse effect on our financial condition or results of operations. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Company since the Listing Date and up to the Latest Practicable Date which could have a material and adverse effect on our financial condition or results of operations.

Nevertheless, as disclosed in (i) the announcement of the Company dated July 26, 2023 (Hong Kong time) and (ii) the Form 20-F of the Company for the fiscal year ended December 31, 2022 which was published by way of an overseas regulatory announcement of the Company on April 26, 2023, in August 2022, the Company and certain of its current and former directors and officers and its underwriters in the Company's U.S. Listing were named as defendants in a securities class action filed in the U.S. District Court for the Southern District of New York. An amended complaint in this class action was filed in March 2023. The action, purportedly brought on behalf of a class of persons or entities who purchased ADS in or traceable to the Company's U.S. Listing, alleges that the Company's registration statement on Form F-1 in connection with the U.S. Listing contains materially misleading statements and omissions in violation of Section 11 of the U.S. Securities Act of 1933. Pursuant to a scheduling order entered in January 2023, the Company filed a motion to dismiss the action in May 2023. Discovery has been stayed pending resolution of our motion to dismiss. The Company believes the Lawsuit is without merit and intends to defend the action vigorously. The Lawsuit is still in its preliminary stages. The Company is currently unable to estimate the potential loss, if any, associated with the resolution of the Lawsuit.

The Company's defence of itself in legal and regulatory proceedings is costly and can impose a significant burden on its directors, management and employees. The results of current or future litigation and regulatory proceedings cannot be predicted with certainty, and regardless of the outcome, litigation and regulatory proceedings can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

EVENTS AFTER JUNE 30, 2023

Save as disclosed in this report, there was no other significant events that might adversely affect the Group after June 30, 2023, and up to the Latest Practicable Date.

APPROVAL OF INTERIM REPORT

The interim report and the unaudited interim condensed consolidated results of the Group for the six months ended June 30, 2023 were approved and authorized for issue by the Board on August 23, 2023.

USE OF NON-GAAP FINANCIAL MEASURES

In evaluating the business, the Company considers and uses non-GAAP financial measures, such as non-GAAP operating expenses, non-GAAP loss from operations (including non-GAAP operating margin), non-GAAP net loss (including non-GAAP net margin), and non-GAAP basic and diluted net loss per ADS, as supplemental measures to review and assess its operating performance. The presentation of non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles in the United States of America (“**U.S. GAAP**”). The Company defines non-GAAP financial measures by excluding the impact of share-based compensation expenses and credit-related impairment of long-term investments from the respective GAAP financial measures. The Company presents the non-GAAP financial measures because they are used by the management to evaluate its operating performance and formulate business plans. The Company also believes that the use of the non-GAAP financial measures facilitates investors’ assessment of its operating performance.

Non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. Non-GAAP financial measures have limitations as analytical tools. One of the key limitations of using the aforementioned non-GAAP financial measures is that they do not reflect all items of expenses that affect the Group’s operations. Share-based compensation expenses and credit-related impairment of long-term investments have been and may continue to be incurred in the business and are not reflected in the presentation of non-GAAP measures. Further, the non-GAAP financial measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited. The Company compensates for these limitations by reconciling the non-GAAP measures to the most directly comparable U.S. GAAP measures, all of which should be considered when evaluating the Group’s performance. The Company encourages you to review its financial information in its entirety and not rely on a single financial measure.

The unaudited reconciliations of the Company’s non-GAAP financial measures to the most directly comparable U.S. GAAP measures are set forth below.

Other Information

RECONCILIATION OF NON-GAAP MEASURES TO THE MOST DIRECTLY COMPARABLE FINANCIAL MEASURES

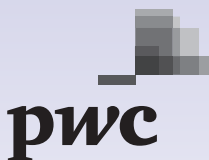
(All amounts in US\$ thousands (“US\$”), except for share and per share data, unless otherwise noted)

	For the Six Months Ended,	
	June 30, 2022	June 30, 2023
Reconciliation of operating expenses to non-GAAP operating expenses		
Research and development expenses	(84,809)	(54,525)
Add: Share-based compensation	7,582	8,123
Adjusted Research and development expenses	<u>(77,227)</u>	<u>(46,402)</u>
Sales and marketing expenses	(30,339)	(20,085)
Add: Share-based compensation	3,500	3,226
Adjusted Sales and marketing expenses	<u>(26,839)</u>	<u>(16,859)</u>
General and administrative expenses	(35,160)	(41,066)
Add: Share-based compensation	23,744	22,983
Add: Credit-related impairment of long-term investments	–	8,050
Adjusted General and administrative expenses	<u>(11,416)</u>	<u>(10,033)</u>
Reconciliation of loss from operations to non-GAAP loss from operations		
Loss from operations	(94,942)	(63,713)
Add: Share-based compensation expenses	34,826	34,332
Add: Credit-related impairment of long-term investments	–	8,050
Non-GAAP Loss from operations	<u>(60,116)</u>	<u>(21,331)</u>
Non-GAAP Operating margin	<u>(51.0)%</u>	<u>(20.4)%</u>
Reconciliation of net loss to non-GAAP net loss		
Net loss	(90,822)	(44,594)
Add: Share-based compensation expenses	34,826	34,332
Add: Credit-related impairment of long-term investments	–	8,050
Non-GAAP Net loss	<u>(55,996)</u>	<u>(2,212)</u>
Non-GAAP Net margin	<u>(47.5)%</u>	<u>(2.1)%</u>
Weighted average number of ordinary shares used in computing non-GAAP net loss per share, basic and diluted	<u>553,471,745</u>	<u>554,472,706</u>
Non-GAAP net loss per share attributable to ordinary shareholders, basic and diluted	<u>(0.10)</u>	<u>(0.00)</u>

SAFE HARBOR STATEMENT

This report contains forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about the Company’s beliefs, and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties, and a number of factors could cause actual results to differ materially from those contained in any forward-looking statement. In some cases, forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “target”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to” or other similar expressions. Further information regarding these and other risks, uncertainties or factors is included in the Company’s filings with the United States Securities and Exchange Commission. The forward-looking statements included in this report are only made as of the Latest Practicable Date, and the Company disclaims any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Report on Review of Interim Financial Information



羅兵咸永道

To the Board of Directors of Tuya Inc.

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 35 to 75, which comprises the condensed consolidated balance sheet of Tuya Inc. (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at June 30, 2023 and the condensed consolidated statement of comprehensive loss, the condensed consolidated statement of changes in shareholders’ equity and the condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with accounting principles generally accepted in the United States of America (“**U.S. GAAP**”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with U.S. GAAP. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with U.S. GAAP.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,

August 23, 2023

Unaudited Condensed Consolidated Balance Sheets

As of December 31, 2022 and June 30, 2023
(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents		133,161	86,266
Restricted cash		–	8,276
Short-term investments	3	821,134	856,028
Accounts receivable, net	4	12,172	13,083
Notes receivable, net		2,767	3,336
Inventories, net	5	45,380	37,023
Prepayments and other current assets, net	6	8,752	8,077
Total current assets		<u>1,023,366</u>	<u>1,012,089</u>
Non-current assets:			
Property, equipment and software, net	7	3,827	2,627
Operating lease right-of-use assets, net	9	9,736	7,057
Long-term investments	8	18,031	16,947
Other non-current assets, net	6	1,179	618
Total non-current assets		<u>32,773</u>	<u>27,249</u>
Total assets		<u>1,056,139</u>	<u>1,039,338</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	10	9,595	9,221
Advance from customers		27,633	25,623
Deferred revenue, current	12	6,821	6,310
Accruals and other current liabilities	11	33,383	32,957
Lease liabilities, current	9	3,850	3,244
Total current liabilities		<u>81,282</u>	<u>77,355</u>
Non-current liabilities:			
Lease liabilities, non-current	9	5,292	3,907
Deferred revenue, non-current	12	394	407
Other non-current liabilities	11	7,004	5,447
Total non-current liabilities		<u>12,690</u>	<u>9,761</u>
Total liabilities		<u>93,972</u>	<u>87,116</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Balance Sheets

As of December 31, 2022 and June 30, 2023

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Shareholders' equity:			
Class A Ordinary Shares (US\$0.00005 par value; 800,000,000 and 800,000,000 (unaudited) shares authorized as of December 31, 2022 and June 30, 2023, respectively; 499,146,560 and 505,393,393 (unaudited) shares issued as of December 31, 2022 and June 30, 2023, respectively; 473,550,229 and 485,012,797 (unaudited) shares outstanding as of December 31, 2022 and June 30, 2023, respectively)	15	25	25
Class B Ordinary Shares (US\$0.00005 par value; 200,000,000 and 200,000,000 (unaudited) shares authorized as of December 31, 2022 and June 30, 2023, respectively; 79,400,000 and 70,400,000 (unaudited) issued and outstanding as of December 31, 2022 and June 30, 2023, respectively)	15	4	4
Treasury stock (US\$0.00005 par value; 25,596,331 and 20,380,596 (unaudited) shares as of December 31, 2022 and June 30, 2023, respectively)		(86,438)	(68,514)
Additional paid-in capital		1,584,764	1,600,206
Accumulated other comprehensive loss		(22,115)	(20,372)
Accumulated deficit		(514,073)	(559,127)
Total shareholders' equity		<u>962,167</u>	<u>952,222</u>
Total liabilities and shareholders' equity		<u>1,056,139</u>	<u>1,039,338</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Comprehensive Loss

For the six months ended June 30, 2022 and 2023
(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	Six months ended June 30, 2022 US\$ (Unaudited)	2023 US\$ (Unaudited)
Revenue	13	117,871	104,489
Cost of revenue		(68,281)	(56,820)
Gross profit		49,590	47,669
Operating expenses:			
Research and development expenses		(84,809)	(54,525)
Sales and marketing expenses		(30,339)	(20,085)
General and administrative expenses		(35,160)	(41,066)
Other operating incomes, net		5,776	4,294
Total operating expenses		(144,532)	(111,382)
Loss from operations		(94,942)	(63,713)
Other income			
Other non-operating incomes, net		1,347	1,556
Financial income, net	14	1,549	18,775
Foreign exchange gain, net		1,526	903
Loss before income tax expense		(90,520)	(42,479)
Income tax expense	17	(302)	(2,115)
Net loss		(90,822)	(44,594)
Net loss attributable to Tuya Inc.		(90,822)	(44,594)
Net loss attributable to ordinary shareholders		(90,822)	(44,594)
Net loss		(90,822)	(44,594)
Other comprehensive (loss)/income			
Changes in fair value of long-term investments		(1,146)	(1,053)
Transfer out of fair value changes of long-term investments	8	–	8,050
Foreign currency translation		(8,050)	(5,254)
Total comprehensive loss attributable to Tuya Inc.		(100,018)	(42,851)
Net loss attributable to Tuya Inc.		(90,822)	(44,594)
Net loss attributable to ordinary shareholders		(90,822)	(44,594)
Weighted average number of ordinary shares used in computing net loss per share, basic and diluted	18	553,471,745	554,472,706
Net loss per share attributable to ordinary shareholders-basic and diluted	18	(0.16)	(0.08)
Share-based compensation expenses were included in:			
Research and development expenses		7,582	8,123
Sales and marketing expenses		3,500	3,226
General and administrative expenses		23,744	22,983

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2022 and 2023

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	Ordinary shares (US\$0.00005 par value)		Treasury stock		Accumulated other comprehensive income/(loss) US\$	Accumulated deficit US\$	Total shareholders' equity US\$	
		Number of shares issued	Amount US\$	Additional paid-in capital US\$	Number of shares issued				Amount US\$
Balance as of December 31, 2021		571,246,560	29	1,526,140	(11,604,808)	(46,930)	2,320	(367,898)	1,113,661
Repurchase of ordinary shares (unaudited)	15	-	-	-	(16,086,682)	(55,370)	-	-	(55,370)
Exercise of share option (unaudited)		-	-	(6,988)	2,158,664	7,427	-	-	439
Net loss (unaudited)		-	-	-	-	-	-	(90,822)	(90,822)
Foreign currency translation adjustment (unaudited)		-	-	-	-	-	(8,050)	-	(8,050)
Fair value change of long-term investments (unaudited)	8	-	-	-	-	-	(1,146)	-	(1,146)
Share-based compensation (unaudited)		-	-	34,826	-	-	-	-	34,826
Balance as of June 30, 2022 (unaudited)		<u>571,246,560</u>	<u>29</u>	<u>1,553,978</u>	<u>(25,532,826)</u>	<u>(94,873)</u>	<u>(6,876)</u>	<u>(458,720)</u>	<u>993,538</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2022 and 2023
(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	Ordinary shares (US\$0.00005 par value)		Treasury stock		Accumulated other comprehensive loss/(income) US\$	Accumulated deficit US\$	Total shareholders' equity US\$	
		Number of shares issued	Amount US\$	Additional paid-in capital US\$	Number of shares issued				Amount US\$
Balance as of December 31, 2022		578,546,560	29	1,584,764	(25,596,331)	(86,438)	(22,115)	(514,073)	962,167
Cumulative effect of accounting change (unaudited)	2.2	-	-	-	-	-	-	(460)	(460)
Balance as of January 1, 2023 (unaudited)		578,546,560	29	1,584,764	(25,596,331)	(86,438)	(22,115)	(514,533)	961,707
Repurchase of ordinary shares (unaudited)	15	-	-	-	(689,407)	(1,358)	-	-	(1,358)
Exercise of share option and vested restricted share unit (unaudited)		-	-	(14,486)	3,151,975	14,878	-	-	392
Cancellation of Treasury stock (unaudited)		(2,753,167)	-	(4,404)	2,753,167	4,404	-	-	-
Net loss (unaudited)		-	-	-	-	-	-	(44,594)	(44,594)
Foreign currency translation adjustment (unaudited)		-	-	-	-	-	(5,254)	-	(5,254)
Transfer out of fair value changes of long-term investments (unaudited)	8	-	-	-	-	-	8,050	-	8,050
Fair value change of long-term investments (unaudited)	8	-	-	-	-	-	(1,053)	-	(1,053)
Share-based compensation (unaudited)		-	-	34,332	-	-	-	-	34,332
Balance as of June 30, 2023 (unaudited)		<u>575,793,393</u>	<u>29</u>	<u>1,600,206</u>	<u>(20,380,596)</u>	<u>(68,514)</u>	<u>(20,372)</u>	<u>(559,127)</u>	<u>952,222</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2022 and 2023

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	Six months ended June 30,	
		2022	2023
		US\$	US\$
		(Unaudited)	(Unaudited)
Cash flows from operating activities:			
Net loss		(90,822)	(44,594)
Adjustments to reconcile net loss to net cash generated from operating activities:			
Share-based compensation		34,826	34,332
Depreciation and amortization of property, equipment and software	7	1,963	1,293
Amortization of right-of-use assets	9	2,872	2,020
Allowance for doubtful receivables/allowance for credit losses	4	(31)	1,039
Inventory write-downs		1,695	420
Gain on disposal of property, equipment and software		(47)	(138)
Gain on foreign currency exchange rates		(1,526)	(903)
Fair value change on short-term and long-term investments	14	1,291	18
Investment loss/(income)	14	2,052	(7,766)
Impairment loss of long-term investments	8	–	8,050
Changes in operating assets and liabilities:			
Accounts receivable		9,161	(2,274)
Notes receivable		(2,585)	(658)
Inventories		3,735	7,937
Prepayments and other current assets		3,481	1,722
Other non-current assets		344	552
Accounts payable		2,733	(374)
Advance from customers		(692)	(2,010)
Deferred revenue		(2,119)	(498)
Accruals and other payables		(20,319)	(6,666)
Lease liabilities		(3,061)	(1,332)
Other non-current liability		76	(1,557)
Net cash used in operating activities		(56,973)	(11,387)
Cash flows from investing activities:			
Payment for short-term investments		(508,715)	(312,382)
Proceeds from disposal of short-term investments		255,151	290,002
Proceeds from other investing activities		762	–
Purchase of property, equipment and software		(543)	(313)
Proceeds from disposal of property, equipment and software		131	358
Payment for long-term investments		(1,575)	–
Net cash used in investing activities		(254,789)	(22,335)

Unaudited Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2022 and 2023
(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

	Note	Six months ended June 30,	
		2022 US\$ (Unaudited)	2023 US\$ (Unaudited)
Cash flows from financing activities:			
Payment for repurchase of ordinary shares		(45,133)	(2,443)
Proceeds from exercise of share options		439	392
Payments of deferred professional costs		(3,951)	(16)
Net cash used in financing activities		<u>(48,645)</u>	<u>(2,067)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(4,956)</u>	<u>(2,830)</u>
Net decrease in cash and cash equivalents		(365,363)	(38,619)
Cash and cash equivalents, restricted cash at the beginning of period		<u>964,576</u>	<u>133,161</u>
Cash and cash equivalents, restricted cash at the end of period		<u>599,213</u>	<u>94,542</u>
Supplemental cash flow disclosures			
Cash paid for income tax		(172)	(965)
		As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Cash and cash equivalents		133,161	86,266
Restricted cash		<u>–</u>	<u>8,276</u>
Total cash, cash equivalents and restricted cash shown in the statement of cash flows		<u>133,161</u>	<u>94,542</u>

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands (“US\$”), except for share and per share data, unless otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

(a) Principal Activities

Tuya Inc. (the “**Company**”) was incorporated under the laws of the Cayman Islands on August 28, 2014, as an exempted company with limited liability. The Company and its subsidiaries and consolidated variable interest entity (“**VIE**”) (collectively referred to as the “**Group**”) are principally engaged in offering PaaS (Platform-as-a-Service) to business customers developing IoT (Internet of Things) devices, including brands and their OEMs (original equipment manufacturer). Also, the Group offers Industry SaaS (Software-as-a-Service) and cloud-based value-added services to its customers. The Group also sells finished smart devices powered by Tuya purchased from qualified OEMs (the “**Smart device distribution**”).

(b) History of the Group

Prior to the incorporation of Tuya Inc. in August 2014, the Group commenced its initial operations through Hangzhou Tuya Technology Co., Ltd. (“**Hangzhou Tuya Technology**”), which was established on June 16, 2014 by Wang Xueji and another individual. After a series of agreements, Hangzhou Tuya Technology was owned by Wang Xueji and other four individuals (collectively, the “**Registered Shareholders**”) together with two unrelated investors of Series Angel financing (the “**Non-Registered Shareholders VIE Investors**”) by August 2014. In December 2014, Hangzhou Tuya Information Technology Co., Ltd. (“the **WFOE**”) was established after the incorporation of Tuya Inc. The Group then entered into a series of contractual arrangements among the WFOE, Hangzhou Tuya Technology and Hangzhou Tuya Technology’s shareholders in December 2014, and thereafter Hangzhou Tuya Technology (the “**VIE**”) became the variable interest entity of the Group. The VIE was controlled by Wang Xueji before and after this transaction. After the completion of this transaction, the Group’s condensed consolidated financial statements include the financial statements of the Company, its subsidiaries and the consolidated VIE. In 2019, the VIE agreements were amended and restated, which amended the VIE’s shareholders list and equity interest of each shareholder as a result of the change in registered share capital of the VIE and exit of Non-Registered Shareholders VIE Investors as the VIE’s shareholders. The contractual arrangements were further amended in January 2022. All rights and obligations, clause, and terms regarding VIE accounting and consolidation basis remained the same. The VIE continues to be under Wang Xueji’s control during the periods presented.

The VIE operated de minimis business activities and had no material impact on the Company’s financial position, results of operations or cash flows for the six months ended June 30, 2022 and 2023.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Principles of Consolidation and Basis of Presentation

The interim unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The interim unaudited condensed consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The comparative year-end condensed balance sheet data was derived from the annual audited consolidated financial statements, but is condensed to the same degree as the interim condensed balance sheet data.

The interim unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users have read or have access to the annual audited consolidated financial statements for the preceding fiscal year.

The preparation of interim unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2.2 New Accounting Standards

Adoption of New Accounting Standards

The Group adopted ASU 2016-13 Financial instruments – credit losses on January 1, 2023, as required, using the modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align the Group's current processes for establishing an allowance for credit losses with the new guidance. Upon adoption, the Group recorded an adjustment of US\$460 to opening retained earnings related to the credit allowance for accounts receivable, notes receivable, prepayments and other assets and investment in available-for-sale debt securities. To estimate expected credit losses, the Group has identified the relevant risk characteristics of its customers, the related receivables and other receivables which include size, term of cooperation, historical transaction, term of service, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers development and weighting of macroeconomic forecasts, incorporation of historical loss experience, non-performing loan ratio of commercial banks by industry, external credit rating and the forward-looking macroeconomic conditions.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

3. SHORT-TERM INVESTMENTS

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Time deposits	818,885	853,848
Equity securities with readily determinable fair value ⁽¹⁾	<u>2,249</u>	<u>2,180</u>
Total short-term investments	<u>821,134</u>	<u>856,028</u>

(1) Starting from July 2021, the Group, from time to time, invested in ordinary shares of a listed company and disposed of portion of the investments. In the six months ended June 30, 2022 and 2023, the Group recorded unrealized investment loss in fair value of US\$1,346 (unaudited) and unrealized investment gain in fair value of US\$13 (unaudited), respectively, in the condensed consolidated statements of comprehensive loss. There were no disposals of equity securities during the six months ended June 30, 2023.

4. ACCOUNTS RECEIVABLE, NET

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Accounts receivable, gross	13,955	16,110
Less: allowance for doubtful accounts/allowance for credit losses	<u>(1,783)</u>	<u>(3,027)</u>
Total accounts receivable, net	<u>12,172</u>	<u>13,083</u>

The Group recorded a reverse of allowance for doubtful accounts of US\$31 (unaudited) for the six months ended June 30, 2022 (unaudited).

The Group recorded the allowance for credit losses of US\$981 (unaudited) under ASU 2016-13 Financial instruments – credit losses for the six months ended June 30, 2023 (unaudited).

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

4. ACCOUNTS RECEIVABLE, NET (Continued)

An aging analysis based on relevant invoice dates is as follows:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
0-3 months	7,033	8,768
3-6 months	1,754	1,484
6-12 months	3,031	1,910
Over 1 year	2,137	3,948
Total accounts receivable, gross	<u>13,955</u>	<u>16,110</u>

5. INVENTORIES, NET

Inventories consist of the following:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Raw materials	44,225	36,748
Finished goods	4,183	3,610
Work in process	3,237	3,119
Low value consumables and spare parts	153	134
Less: inventory write-downs	<u>(6,418)</u>	<u>(6,588)</u>
Total inventories, net	<u>45,380</u>	<u>37,023</u>

The Group recorded inventory write-downs of US\$1,695 (unaudited) and US\$420 (unaudited) for the six months ended June 30, 2022 and 2023, respectively.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

6. PREPAYMENTS AND OTHER ASSETS, NET

The current and non-current portions of prepayments and other assets consist of the following:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Prepayments and other current assets		
Advance to suppliers	5,980	4,974
Rental deposits	527	864
VAT recoverable ⁽¹⁾	810	765
Interest receivable	284	171
Receivables from third party payment platforms	299	164
Others	852	1,175
Less: allowance for credit losses	—	(36)
	<hr/>	<hr/>
Total prepayments and other current assets, net	8,752	8,077
Other non-current assets		
Rental deposits	1,179	627
Less: allowance for credit losses	—	(9)
	<hr/>	<hr/>
Total other non-current assets, net	1,179	618

(1) VAT recoverable represented the balances that the Group can utilize to deduct its VAT liabilities within the next 12 months.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

7. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software consist of the following:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Cost:		
Leasehold improvements	3,389	3,494
Computers and electronic equipment	7,513	6,789
Office equipment	229	217
Software	726	729
Construction in progress	59	–
	<hr/>	<hr/>
Total cost	11,916	11,229
Less: Accumulated depreciation and amortization	(8,089)	(8,602)
	<hr/>	<hr/>
Total property, equipment and software, net	3,827	2,627

Depreciation expense was US\$1,963 (unaudited) and US\$1,293 (unaudited) for the six months ended June 30, 2022 and 2023, respectively.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

8. LONG-TERM INVESTMENTS

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Investments in available-for-sale debt securities ⁽¹⁾	17,665	16,612
Investment in an equity security with readily determinable fair values	<u>366</u>	<u>335</u>
Total long-term investments	<u>18,031</u>	<u>16,947</u>

- (1) As of December 31, 2022 and June 30, 2023, the balance represents the Group's shareholding interests of several privately held companies.

As the Group has the right to request each investee to redeem the Group's investments at the Group's investment cost plus interest if the investee fails to meet certain predetermined conditions, the redeemable shares of the investees purchased by the Group were classified as an available-for-sale debt investments and were measured at their respective fair values.

For the six months ended June 30, 2022 and 2023, the fair value changes of the Group's investments in these privately held companies were other comprehensive loss of US\$1,146 (unaudited) and US\$1,053 (unaudited), respectively.

For one of the aforementioned investment, the Group recorded an impairment loss of US\$8,050 (unaudited), which was included in the general and administrative expense, and transferred out this investment's historical fair value change reflected in accumulated other comprehensive income accordingly, for the six months ended June 30, 2023, as a result of the Group's impairment assessment on this investment as of June 30, 2023.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

9. OPERATING LEASES

The Company has operating leases primarily for office and operation space. The Company's operating lease arrangements have remaining terms of one year to four years with no variable lease costs.

Operating lease costs were US\$3,823 (unaudited) and US\$2,110 (unaudited) for the six months ended June 30, 2022 and 2023, respectively.

The components of lease expenses were as follows:

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
<hr/>		
Lease cost:		
Amortization of right-of-use assets	2,872	2,020
Interest of lease liabilities	435	35
Expenses for short-term lease within 12 months	516	55
	<hr/>	<hr/>
Total lease cost	3,823	2,110

Supplemental cash flow information related to leases are as follows:

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
<hr/>		
Cash paid for amounts included in the measurement of lease liabilities	3,298	1,785
Right-of-use assets obtained in exchange for operating lease liabilities	270	98

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

9. OPERATING LEASES (Continued)

Supplemental condensed consolidated balance sheet information related to leases are as follows:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Right-of-use assets	9,736	7,057
Operating lease liabilities – current	3,850	3,244
Operating lease liabilities – non-current	5,292	3,907
Total lease liabilities	9,142	7,151
Weighted-average remaining lease term		
Operating leases	2.73 years	2.45 years
Weighted-average discount rate	4.75%	4.75%
Operating lease	per annum	per annum

Maturities of lease liabilities were as follows:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
2023	4,200	2,067
2024	2,835	2,788
2025	2,675	2,587
2026	46	119
2027	4	4
Total undiscounted lease payments	9,760	7,565
Less: imputed interest	(618)	(414)
Total lease liabilities	9,142	7,151

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

10. ACCOUNTS PAYABLE

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Total accounts payable	9,595	9,221

An aging analysis based on relevant invoice dates is as follows:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
0-3 months	8,594	8,642
3-6 months	206	191
6-12 months	615	139
Over 1 year	180	249
Total accounts payable	9,595	9,221

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

11. ACCRUALS AND OTHER LIABILITIES

The current and non-current portions of accruals and other liabilities consist of the following:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Accruals and other current liabilities		
Salary and welfare payable	16,850	10,506
Forward contract liabilities ⁽⁴⁾	–	4,817
Cloud infrastructure and IT related services fee payables	3,214	4,504
Payment from depositary bank, current ⁽²⁾	3,113	3,113
Professional service fee payables	2,036	2,799
Tax payables	787	1,402
Deposit payable	1,436	1,384
Sales return allowances	1,004	1,072
Membership fee to be refunded ⁽¹⁾	388	1,035
Advertising and promotion fee payables	1,078	490
Product warranty	213	182
Payables for share repurchase ⁽³⁾	716	–
Others	2,548	1,653
	<u>33,383</u>	<u>32,957</u>
Other non-current liabilities		
Payment from depositary bank, non-current ⁽²⁾	<u>7,004</u>	<u>5,447</u>
	<u>40,387</u>	<u>38,404</u>

- (1) Membership fee to be refunded presents the balances of refundable membership fee collected by the Group from its customers under the 2019 and 2023 Membership Program (Note 13).
- (2) The Company received reimbursement payment of US\$13,053 and US\$1,926 from a depositary bank in April 2021 and June 2022, respectively. The amount was recorded ratably as other non-operating income over a five-year and 46-month arrangement period, respectively. For the six months ended June 30, 2022 and 2023, the Company recorded US\$1,347 (unaudited) and US\$1,556 (unaudited) in other non-operating income in the condensed consolidated statements of comprehensive loss, respectively.
- (3) Payables for share repurchase represents the share repurchase consideration to be settled as of December 31, 2022 by the Group to a bank engaged by the Group for the Share Repurchase Program (Note 15). These payables were fully paid subsequently in January 2023.
- (4) Forward contract liabilities represent the fair value of forward exchange contracts as of June 30, 2023. As of June 30, 2023, nominal principal of the forward contracts was about US\$72,000 (unaudited). For the six months ended June 30, 2023, the Group recorded the changes in fair value of forward exchange contracts with a loss of US\$4,817 (unaudited).

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

12. DEFERRED REVENUE

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Deferred Revenue		
– Cloud-based connectivity and basic IoT services ⁽¹⁾	1,375	1,073
– Membership (Note 13)	672	129
– SaaS ⁽²⁾	5,168	5,515
Total deferred revenue	<u>7,215</u>	<u>6,717</u>

(1) Deferred cloud-based connectivity and basic IoT services related revenue

Deferred cloud-based connectivity and basic IoT services related revenue represents the Group's provision of cloud-based connectivity obligation and basic IoT services to customers.

	Six months Ended June 30,	
	2022 US\$ (Unaudited)	2023 US\$ (Unaudited)
Beginning balances	2,669	1,375
Deferral of revenue	539	397
Recognition of deferred revenue	(1,223)	(699)
Ending balances	<u>1,985</u>	<u>1,073</u>

(2) Deferred Revenue – SaaS

Deferred Revenue – SaaS mainly represents the Group's remaining performance obligation in providing industry SaaS services over the period of time.

	Six months Ended June 30,	
	2022 US\$ (Unaudited)	2023 US\$ (Unaudited)
Beginning balances	3,971	5,168
Deferral of revenue	3,531	9,079
Recognition of deferred revenue	(3,472)	(8,732)
Ending balances	<u>4,030</u>	<u>5,515</u>

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

13. REVENUE

The Group's revenue was disaggregated by its major revenue streams in the six months presented as follows:

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
IoT PaaS	89,364	74,730
Smart device distribution	15,568	11,937
SaaS and others	12,939	17,822
Total revenue	<u>117,871</u>	<u>104,489</u>

Remaining performance obligations

The remaining performance obligations primarily relate to the Group's provision of i) cloud-based connectivity and basic IoT services; ii) membership services; and iii) SaaS and others, and all three of them are included in deferred revenue.

The amounts allocated to the cloud-based connectivity and basic IoT services are deferred and recognized on a straight-line basis over the estimated IoT PaaS product's life cycle. The Group apportions deferred revenue between current and non-current based upon cloud-based connectivity and basic IoT services to be provided over the life cycle of smart devices. Deferred revenue relating to the Group's cloud services that have an expiration date of less than 12 months are classified as current, otherwise non-current.

Starting from the fourth quarter of 2020, there are i) upfront fixed membership fee received and recorded as deferred revenue, and recognized as revenue on a straight-line basis typically over the 12-month membership period in which customers are entitled to the membership; and ii) amounts related to providing industry SaaS (included in SaaS and others), for which, the Company generally charges an annual subscription fee, which is deferred and recognized on a straight-line basis typically over the 12-month service period.

As of December 31, 2022 and June 30, 2023, the aggregate amount of transaction price allocated to the remaining performance obligations was US\$7,215 and US\$6,717 (unaudited), respectively, of which US\$6,821 and US\$6,310 (unaudited) were recorded in current deferred revenue while US\$394 and US\$407 (unaudited) were recorded in non-current deferred revenue, respectively.

The Group's contract liability, including both deferred revenue and the advance from customers, is US\$34,848 and US\$32,340 (unaudited) as of December 31, 2022 and June 30, 2023, respectively.

The Group applies the practical expedient to omit disclosure of information about the transaction price allocated to remaining performance obligations and when revenue will be recognized, for contracts with durations of one year or less. The remaining amounts recorded in non-current deferred revenue of US\$394 and US\$407 (unaudited) as of December 31, 2022 and June 30, 2023, respectively, would likely be recognized within 18 to 36 months.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

13. REVENUE (Continued)

Remaining performance obligations (Continued)

The Group provides warranty for IoT PaaS and smart device distribution mainly for one year. The Group accrues a warranty reserve for all IoT PaaS and smart device distribution, which represents the Group's best estimate of the projected costs to repair or replace items under warranties. These estimates are based on actual claims incurred to date and an estimate of the nature, frequency and costs of future claims. These estimates are inherently uncertain given the Group's relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty reserve when the Group accumulates more actual data and experience in the future. The warranty reserve is included within accruals and other liabilities in the consolidated balance sheets.

Deferred Revenue – Membership

The Group started a membership program (the "**2019 Membership Program**") in the fourth quarter of 2019. In the 2019 Membership Program, customers pay a fixed fee in exchange for IoT PaaS discount, VIP technical support, valued added services ("VAS" i.e., customized app development), and free participation in promotional activities. The promise to provide for technical support related services, the promotion related services and VAS are considered immaterial promises in the contract and are not considered distinct performance obligations. The membership fee is refundable if the volume requirements are met when the membership period ends. The Group historically generally refunds the membership fees even if the volume requirements are not met. Therefore, the Group does not expect being able to keep any of the membership fees and such fees are recorded as a refund liability under the 2019 Membership Program.

The Group launched a new membership program (the "**2020 Membership Program**") in the fourth quarter of 2020. In the 2020 Membership Program, customers pay a non-refundable fixed fee in exchange for member-exclusive IoT PaaS discounts within the membership period of typically 12 months. The Group records the upfront fixed membership fee as a deferred revenue and recognizes revenue on a straight-line basis typically over the 12-month membership period in which customers entitle to the membership.

The Group replaced 2019 Membership Program and 2020 Membership program with a new membership program ("**2023 Membership Program**") in the first quarter of 2023. In the 2023 Membership Program, the customers are offered to choose either i) pay an upfront fixed fee in exchange for price discount in future purchases (the "**Deposit scheme**"), or ii) enjoy sales rebates based upon purchase achieved without paying any upfront fees (the "**Rebate scheme**") with the membership period of typically 12 months. Under Deposit scheme, the upfront fee are refundable only if the volume requirements are met when the membership period ends. Considering past experience and current forecast, the Group does not expect being able to keep any of the membership fees and such fees are recorded as a refund liability. Under the Rebate schedule, sales rebates are estimated based on the past experience and current forecasts and recognized as the customers make progress towards the purchase threshold. The sales rebates are accounted for as reduction of net sales.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

14. FINANCIAL INCOME, NET

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
Interest income and investment income, net ⁽¹⁾	2,840	18,793
Fair value change of short-term investments	(1,346)	13
Fair value change of long-term investments	55	(31)
	<hr/>	<hr/>
Total financial income, net	1,549	18,775

(1) Interest income and investment income, net included interest income and investment income of US\$4,892 (unaudited) and US\$23,610 (unaudited), as well as realized investment loss from forward exchange contracts of US\$2,052 (unaudited) and the changes in fair value of forward exchange contracts with a loss of US\$4,817 (unaudited), for the six months ended June 30, 2022 and 2023, respectively.

15. ORDINARY SHARES

On August 30, 2021, the Company's board of directors authorized a share repurchase program under which the Company may repurchase up to US\$200 million of ADSs each representing one Class A Ordinary Shares during a twelve-month period ended on August 30, 2022. On November 9, 2022, the Company's board of directors authorized a share repurchase program under which the Company may repurchase up to US\$50 million of ADSs each representing one Class A Ordinary Shares (The above-mentioned share repurchase programs are collectively referred as the "**Share Repurchase Program**"). The share repurchases may be made from time to time in the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. As of June 30, 2023 (unaudited), the Company had in aggregate of 505,393,393 Class A Ordinary Shares issued and 485,012,797 shares Class A outstanding, at a par value of US\$0.00005. As of June 30, 2023 (unaudited), the Company had in aggregate of 70,400,000 Class B Ordinary Shares issued and outstanding, at a par value of US\$0.00005.

Immediately prior to the completion of the Initial Public Offering (the "**IPO**"), all classes of preferred shares of the Company were converted to ordinary shares upon completion of the IPO. As of December 31, 2022 and June 30, 2023 (unaudited), the balance of preferred shares is nil.

16. SHARE-BASED COMPENSATION

In December 2014, the board of directors of the Company adopted the Company's 2015 Equity Incentive Plan ("**the 2015 Plan**") and reserved 31,918,690 ordinary shares for issuance under the Plan to grant share-based awards, including restricted shares and share options, to its service providers, defined as the Company's global employees, director and external consultants. In July 2020, the 2015 Plan was modified to allow the Company with the intentions of i) providing for the award of restricted stock units ("**RSUs**") under the 2015 Plan and ii) amending the exercise price of certain outstanding share options held by certain optionees located outside of the U.S. to purchase ordinary shares of the Company (the "**Share Option Repricing**"), and the number of ordinary shares reserved for the 2015 Plan was modified to 60,778,005 (adjusted in accordance with the Share Split).

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

16. SHARE-BASED COMPENSATION *(Continued)*

Since adoption of the 2015 Plan, the Company granted options to its global employees, directors and external consultants. All options granted have a contractual term of ten years from the grant date, and the vest over a period of four years of continuous service. The share options granted to the PRC employee grantees shall become fully vested under the same service conditions and vesting schedule and, to the extent permissible under applicable law, exercisable upon the occurrence of a Change in Control (as defined in the 2015 Plan).

The Company accounts for share-based compensation costs (based on the fair value as of the respective grant date) on a straight-line bases over the requisite service period for each award.

In January 2021, the Company entered into agreements with certain optionees under the 2015 Plan to amend the exercise price of certain outstanding share options held by these optionees located outside of the U.S. to purchase ordinary shares of the Company. As a result of this share option repricing, the Company recorded incremental share-based compensation expense of US\$878 (unaudited) and US\$464 (unaudited) in its condensed consolidated financial statements for the six months ended June 30, 2022 and 2023, and estimated approximately US\$443 (unaudited) to be amortized over the remaining requisite service period for the optionees till year ended December 31, 2024.

On February 21, 2021, the 2015 Plan was amended to increase the number of ordinary shares available and reserved for issuance under the 2015 Plan to 76,778,005 ordinary shares, which was approved by the board of directors of the Company and the shareholders of the Company.

On February 25, 2021, the board of directors of the Company approved further amendment to the 2015 Plan, which provides that starting on January 1, 2022, on the first day of each fiscal year thereafter, the total number of shares available for issuance under the 2015 Plan was increased by an amount equal to the least of (i) 2% of the aggregate number of shares of all classes of ordinary shares of the Company's issued and outstanding on the last day of the immediately preceding fiscal year and (ii) such number of shares as determined by the board of directors.

The Company granted 2,765,000 (unaudited) and nil (unaudited) new share options with four-year requisite service period to its employees and non-employees for the six months ended June 30, 2022 and 2023, respectively. As of December 31, 2022 and June 30, 2023, 56,274,213 and 53,907,363 (unaudited) options were outstanding under the 2015 Plan.

Starting from June 2021, the Company granted RSUs under the 2015 Plan. The Company granted 3,158,500 (unaudited) and 1,181,000 (unaudited) RSUs with three-to-four-year requisite service period to its employees and non-employees for the six months ended June 30, 2022 and 2023. As of December 31, 2022 and June 30, 2023, 11,638,750 and 11,044,625 (unaudited) RSUs were outstanding under the 2015 Plan, respectively.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

16. SHARE-BASED COMPENSATION (Continued)

Share Options

The following table sets forth the share options activity for the six months ended June 30, 2022 (unaudited) and 2023 (unaudited):

	Number of shares	Weighted average exercise price per share	Weighted average grant date fair value per share	Weighted average remaining contractual term	Aggregate intrinsic value US\$
Outstanding as of December 31, 2021	59,961,539	0.17	4.40	6.95	364,287
Granted (unaudited)	2,765,000	0.20	3.27		
Exercised (unaudited)	(2,158,664)	0.16	1.21		
Forfeited (unaudited)	<u>(1,242,500)</u>	<u>0.50</u>	<u>9.23</u>		
Outstanding as of June 30, 2022 (unaudited)	<u>59,325,375</u>	<u>0.17</u>	<u>4.37</u>	<u>6.58</u>	<u>145,383</u>
Outstanding as of December 31, 2022	56,274,213	0.16	4.42	6.04	98,287
Granted (unaudited)	–	–	–		
Exercised (unaudited)	(1,999,350)	0.19	2.99		
Forfeited (unaudited)	<u>(367,500)</u>	<u>0.38</u>	<u>6.27</u>		
Outstanding as of June 30, 2023 (unaudited)	<u>53,907,363</u>	<u>0.16</u>	<u>4.46</u>	<u>5.51</u>	<u>87,114</u>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the underlying stock at each reporting date (December 31, 2022: US\$107,484, June 30, 2023: US\$101,885 (unaudited)).

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

16. SHARE-BASED COMPENSATION (Continued)

Share Options (Continued)

The Group uses the Binominal option pricing model to estimate the fair value of stock options. The assumptions used to value the Company's options grants were as follow:

	Six Months Ended June 30,	
	2022 (Unaudited)	2023 (Unaudited)
Exercise price (US Dollar)	0.2	N/A
Exercise multiple	2.2-2.8	N/A
Risk-free interest rate	1.92%~3.22%	N/A
Expected term (in years)	10	N/A
Expected dividend yield	–	N/A
Expected volatility	55.68%~55.78%	N/A
Expected forfeiture rate (post-vesting)	5.83%~7.70%	N/A
Fair value of the underlying shares on the date of options grants (US Dollar)	2.24~5.46	N/A
Fair value of share option (US Dollar)	2.05~5.27	N/A

For the period ended June 30, 2023, no new share option granted by the Company. As of June 30, 2023, there were US\$96,240 (unaudited) of unrecognized share-based compensation expenses related to share options granted by the Company, which were expected to be recognized over a weighted-average vesting period of 0.80 year (unaudited), respectively.

Restricted Share Units

The following table sets forth the service-based RSUs activity for the six months ended June 30, 2022 (unaudited) and 2023 (unaudited):

	Number of shares	Weighted average grant date fair value per share
Outstanding as of December 31, 2021	3,050,000	8.80
Granted (unaudited)	3,158,500	4.77
Forfeited (unaudited)	(506,000)	8.07
Outstanding as of June 30, 2022 (unaudited)	5,702,500	6.63
Outstanding as of December 31, 2022	11,638,750	3.51
Granted (unaudited)	1,181,000	1.79
Vested (unaudited)	(1,152,625)	4.59
Forfeited (unaudited)	(622,500)	4.65
Outstanding as of June 30, 2023 (unaudited)	11,044,625	3.15

As of June 30, 2023, there were US\$27,382 (unaudited) of unrecognized share-based compensation expenses related to RSUs granted by the Company, which were expected to be recognized over a weighted-average vesting period of 3.60 years (unaudited). The fair value of the RSUs are measured at market price of the Company at the grant date and are held under employee share scheme until such time as they are vested.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands (“US\$”), except for share and per share data, unless otherwise noted)

17. INCOME TAXES

Cayman Islands

Under the current tax laws of Cayman Islands, the Company is not subject to income, corporation or capital gains tax, and no withholding tax is imposed upon the payment of dividends.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the Group’s subsidiaries in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

PRC Enterprise Income Tax (“EIT”)

On March 16, 2007, the National People’s Congress of PRC enacted the Enterprise Income Tax Law (the “**new CIT Law**”), under which foreign invested enterprises (“**FIEs**”) and domestic companies would be subject to enterprise income tax (“**EIT**”) at a uniform rate of 25%. The new CIT law became effective on January 1, 2008. In accordance with the implementation rules of EIT Law, a qualified “High and New Technology Enterprise” (“**HNTE**”) is eligible for a preferential tax rate of 15%. The HNTE certificate is effective for a period of three years. An entity could re-apply for the HNTE certificate when the prior certificate expires.

The WFOE (Hangzhou Tuya Information Technology Co., Ltd.) obtained its HNTE certificate with a valid period of three years in 2018. Therefore, the WFOE is eligible to enjoy a preferential tax rate of 15% from 2018 to 2020 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. The WFOE renewed its “High-tech Enterprise” certificate in 2021, which allowed it to apply an income tax rate of 15% for the three years ended December 31, 2022, 2023 and 2024.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

17. INCOME TAXES (Continued)

PRC (Continued)

PRC Withholding Income Tax on Dividends

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located."

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong can be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong is a local tax resident and owns directly at least 25% of the shares of the FIE, and could be recognized as a Beneficial Owner of the dividend from PRC tax perspective.

As of December 31, 2022 and June 30, 2023 (unaudited), the Company did not record any withholding tax on the retained earnings of its subsidiaries and the VIE in the PRC as the Group does not have any plan to require its PRC subsidiaries and the VIE to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. As of December 31, 2022 and June 30, 2023 (unaudited), most of the Company's subsidiaries and the VIE were still in an accumulated loss position.

United States

The Company's subsidiary in California, United States is subject to U.S. federal corporate tax and California corporate franchise tax on its taxable income as reported in its financial statements adjusted in accordance with relevant U.S. tax laws. The applicable U.S. federal corporate tax rate is 21% and the California corporate franchise tax rate is 8.84% or minimum of \$0.8, whatever is larger in 2022 and 2023.

As the Group incurred income tax expense mainly from PRC tax jurisdictions, the following information is based mainly on PRC income taxes.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

17. INCOME TAXES (Continued)

Composition of income tax expense

The components of loss before tax are as follow:

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
Loss before tax		
Loss from PRC entities	83,128	44,212
Loss/(profit) from overseas entities	7,392	(1,733)
Total loss before tax	<u>90,520</u>	<u>42,479</u>

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
Current income tax expense	302	2,115
Deferred income tax	-	-
Total income tax expense	<u>302</u>	<u>2,115</u>

Reconciliation of the differences between statutory tax rate and the effective tax rate

Reconciliation of the differences between the statutory EIT rate applicable to losses of the consolidated entities and the income tax expenses of the Group:

	Six months Ended June 30,	
	2022	2023
	(Unaudited)	(Unaudited)
PRC Statutory income tax rate	25.0%	25.0%
Effect of tax rates in different tax jurisdiction	-0.8%	-3.4%
Effect of preferential tax rate for qualified HNTE entities ⁽¹⁾	-5.5%	-5.9%
Additional deduction for research and development expenditures	6.0%	15.1%
Share-based compensation	-8.5%	-14.9%
Permanent book-tax differences	-0.1%	-0.3%
Change in valuation allowance ⁽²⁾	-16.4%	-20.6%
Effective tax rates	<u>-0.3%</u>	<u>-5.0%</u>

(1) The effect of the preferential income tax rate that the WFOE is entitled to enjoy as a qualified HNTE is 15%.

(2) Valuation allowance for the six months ended June 30, 2022 (unaudited) and 2023 (unaudited) are related to the deferred tax assets of certain group entities which reported losses. The Group believes that it is more likely than not that the deferred tax assets of these entities will not be utilized. Therefore, valuation allowance has been provided.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

18. BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted loss per share have been calculated in accordance with ASC 260 on computation of earnings (loss) per share for each of the six months ended June 30, 2022 and 2023 are calculated as follows:

	Six months Ended June 30,	
	2022	2023
	US\$	US\$
	(Unaudited)	(Unaudited)
Basic and diluted net loss per share calculation		
Numerator:		
Net loss attributable to Tuya Inc.'s ordinary shareholders, basic and diluted	(90,822)	(44,594)
Denominator:		
Weighted-average ordinary shares outstanding, basic and diluted	553,471,745	554,472,706
Net loss per share attributable to ordinary shareholders:		
– Basic	(0.16)	(0.08)
– Diluted	(0.16)	(0.08)

The following ordinary shares equivalent were excluded from the computation of diluted net loss per ordinary share for the periods presented because including them would have had an anti-dilutive effect:

	As of December 31, 2022	As of June 30, 2023 (Unaudited)
Share option and RSU-weighted shares	65,349,350	65,615,598

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

19. COMMITMENTS AND CONTINGENCIES

(a) Capital and other commitments

There was no future minimum capital commitments as of December 31, 2022 and June 30, 2023 (unaudited).

(b) Operating lease commitment

The Group had outstanding commitments on several non-cancellable operating lease agreements. Operating lease with a lease term commitment of one year or less lease term, for which the Group elected to not recognize any lease liability or right-of-use asset, therefore not yet reflected in the condensed consolidated financial statements as of December 31, 2022 and June 30, 2023 were US\$33 and US\$34 (unaudited), respectively.

(c) Services purchase commitment

As of December 31, 2022, the Group's services purchase commitments were as follows:

	Total US\$	Less Than		
		1 year US\$	1-3 years US\$	3-5 years US\$
Purchase obligations (i)	24,604	6,479	15,000	3,125

As of June 30, 2023 (unaudited), the Group's services purchase commitments were as follows:

	Total US\$ (Unaudited)	Less Than		
		1 year US\$ (Unaudited)	1-3 years US\$ (Unaudited)	3-5 years US\$ (Unaudited)
Purchase obligations (i)	21,552	7,177	14,375	-

(i) Purchase obligations represent US\$24,604 and US\$21,552 (unaudited) of remaining non-cancellable contractual commitments as of December 31, 2022 and June 30, 2023, respectively, related to one of the Group's third-party cloud infrastructure agreements, under which the Group committed to spend an aggregate of at least US\$37,500 between June 1, 2021 and May 31, 2026 with minimum purchase commitment. The Group had made payments totalling US\$15,774 and US\$21,156 (unaudited) under this agreement as of December 31, 2022 and June 30, 2023, respectively.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

19. COMMITMENTS AND CONTINGENCIES (Continued)

(d) Contingencies

On August 9, 2022, the company and certain of its current and former officers and directors were named as defendants in a putative securities class action filed in the United States District Court for the Southern District of New York, alleging that certain material misstatements and/or omissions were made in the Company's March 2021 IPO registration statement. The case remains in its preliminary stage and the Group is unable to predict the outcome of the case, or reasonably estimate a range of possible loss, if any, given the current status of the case. The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group has not recorded material liabilities in this regard for the above action as of June 30, 2023 (unaudited). Other than as disclosed above, as of December 31, 2022, June 30, 2023 (unaudited) and August 23, 2023 (unaudited), the Group was not involved in any legal or administrative proceedings that the Group believes may have a material adverse impact on the Group's business, balance sheets or results of operations and cash flows.

20. RELATED PARTY TRANSACTIONS

The table below sets forth the major related party and their relationships with the Company as of June 30, 2022 (unaudited) and 2023 (unaudited):

Name of related party	Relationship with the Group
Wang Xueji and other four individuals	Registered Shareholders
Tencent Group (including Tencent Mobility Limited and Image Frame Investment (HK) Limited. After November 1, 2022, Tencent Group is a related party of the Company)	Principal shareholder of the Group

Details of amounts due from/to related parties as of December 31, 2022 and June 30, 2023 (unaudited) are as follows:

	As of December 31, 2022 US\$	As of June 30, 2023 US\$ (Unaudited)
Prepaid cloud service fee to Tencent Group ⁽¹⁾	97	-
Cloud service fee due to Tencent Group ⁽¹⁾	-	27
Cloud-related technical services fee due to Tencent Group ⁽¹⁾	306	-

(1) Tencent Cloud Computing (Beijing) Co., Ltd., under the control of Tencent Group, provided the Company with cloud services and other cloud-related technical services. The purchase of cloud service from Tencent Group amounted to US\$663 (unaudited) for the six months ended June 30, 2023.

Starting from November 1, 2022, Tencent Group became a related party of the Company. Therefore, there were no related parties transactions for the six months ended June 30, 2022.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

21. FAIR VALUE MEASUREMENT

Fair value is 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 Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy 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. The three levels of inputs that may be used to measure fair value include:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.
- Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Accounting guidance also describes three main approaches to measuring 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. A security is considered impaired if the fair value of the security is less than its amortized cost basis. To determine the amount of impairment related to credit, the Group compares the present value of the cash flows expected to be collected on the available-for-sale debt security with the security's amortized cost basis. If the present value of cash flows expected to be collected is less than the security's amortized cost basis, a credit-related impairment exists, and the difference should be recorded as an allowance for credit losses through net income.

Financial assets and liabilities of the Group mainly consist of cash and cash equivalents, restricted cash, short-term investments, account receivables, notes receivable, certain other current assets, long-term investments, trade payables and certain accruals and other liabilities. As of December 31, 2022 and June 30, 2023, except for short-term investments, debt securities and equity securities with readily determinable fair value included in long-term investments, the carrying values of these financial instruments approximated their fair values due to their short-term maturity. The Group reports equity securities with readily determinable fair value included in short-term investments at fair value and discloses the fair value of these investments based on level 1 measurement. The Group reports time deposits included in short-term investments and forward contract liabilities included in accruals and other current liabilities at fair value, and discloses their fair value based on level 2 measurement. The Group reports equity securities with readily determinable fair value included in long-term investments at fair value and discloses the fair value of these investments based on level 2 measurement. The Group reports investment in available-for-sale debt securities included in long-term investments at fair value and discloses the fair value of these investments based on level 3 measurement.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

21. FAIR VALUE MEASUREMENT (Continued)

The following table sets forth the Group's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy:

Description	Fair value as of December 31, 2022	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	821,134	2,249	818,885	–
Long-term investments	18,031	–	366	17,665
	<u>839,165</u>	<u>2,249</u>	<u>819,251</u>	<u>17,665</u>

Description	Fair value as of June 30, 2023 (Unaudited)	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (Unaudited)	Significant Other Observable Inputs (Level 2) (Unaudited)	Significant Unobservable Inputs (Level 3) (Unaudited)
Assets:				
Short-term investments	856,028	2,180	853,848	–
Long-term investments	16,947	–	335	16,612
Liabilities:				
Forward exchange contract	(4,817)	–	(4,817)	–
	<u>868,158</u>	<u>2,180</u>	<u>849,366</u>	<u>16,612</u>

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

21. FAIR VALUE MEASUREMENT (Continued)

The roll forward of major Level 3 investments are as follows:

	US\$
Fair value of Level 3 investments as of December 31, 2022	17,665
New addition (Unaudited)	–
The change in fair value of the investments (Unaudited)	<u>(1,053)</u>
Fair value of Level 3 investments as of June 30, 2023 (Unaudited)	<u>16,612</u>

Management determined the fair value of these Level 3 investments based on market approach using various unobservable inputs. The determination of the fair value required significant judgement by management with respect to the assumptions and estimates for the lack of marketability discounts, expected volatility and probability in equity allocation. The significant unobservable inputs adopted in the valuation as of June 30, 2023 are as follows:

Unobservable Inputs	(Unaudited)
Expected volatility	39%-63%
Probability	Liquidation scenario: 35%-45%
	Redemption scenario: 35%-45%
	IPO scenario: 10%-30%

22. DIVIDENDS

The board of directors of the Company did not recommend the distribution of any interim dividend for the six months ended June 30, 2022 and 2023.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRSs"). The effects of material differences between the Financial Information of the Group prepared under U.S. GAAP and IFRSs are as follows:

Condensed consolidated Balance Sheet data	As of December 31, 2022							Amounts as reported under IFRSs
	Amounts as reported under U.S. GAAP	IFRSs adjustments						
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
		Classification and measurement of preferred shares (Note(a))	Listing expenses (Note(b))	Operating leases (Note(c))	Share-based compensation (Note(d))	Expected credit loss (Note(e))	Long-term investments (Note(f))	
Operating lease right-of-use assets, net	9,736	-	-	(285)	-	-	-	9,451
Accounts receivable, net	12,172	-	-	-	-	(382)	-	11,790
Notes receivable, net	2,767	-	-	-	-	(47)	-	2,720
Prepayments and other current assets, net	8,752	-	-	-	-	(17)	-	8,735
Other non-current assets, net	1,179	-	-	-	-	(14)	-	1,165
Long-term investments	18,031	-	-	-	-	-	(17,665)	366
Financial assets at fair value through profit or loss	-	-	-	-	-	-	17,665	17,665
Total assets	1,056,139	-	-	(285)	-	(460)	-	1,055,394
Accumulated deficit	(514,073)	(5,513,140)	(9,177)	(285)	(31,738)	(460)	(9,136)	(6,078,009)
Accumulated other comprehensive loss	(22,115)	-	-	-	-	-	9,136	(12,979)
Additional paid-in capital	1,584,764	5,513,140	9,177	-	31,738	-	-	7,138,819
Total shareholder's equity/(deficit)	962,167	-	-	(285)	-	(460)	-	961,422

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Condensed consolidated Balance Sheet data	As of June 30, 2023 (Unaudited)							Amounts as reported under IFRSs
	Amounts as reported under U.S. GAAP	IFRSs adjustments						
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
		Classification and measurement of preferred shares (Note(a))	Listing expenses (Note(b))	Operating leases (Note(c))	Share-based compensation (Note(d))	Expected credit loss (Note(e))	Long-term investments (Note(f))	
Operating lease right-of-use assets, net	7,057	-	-	(305)	-	-	-	6,752
Accounts receivable, net	13,083	-	-	-	-	-	-	13,083
Notes receivable, net	3,336	-	-	-	-	-	-	3,336
Prepayments and other current assets, net	8,077	-	-	-	-	-	-	8,077
Other non-current assets, net	618	-	-	-	-	-	-	618
Long-term investments	16,947	-	-	-	-	-	(16,612)	335
Financial assets at fair value through profit or loss	-	-	-	-	-	-	16,612	16,612
Total assets	1,039,338	-	-	(305)	-	-	-	1,039,033
Accumulated deficit	(559,127)	(5,513,140)	(9,177)	(305)	(20,384)	-	(2,139)	(6,104,272)
Accumulated other comprehensive loss	(20,372)	-	-	-	-	-	2,139	(18,233)
Additional paid-in capital	1,600,206	5,513,140	9,177	-	20,384	-	-	7,142,907
Total shareholder's equity/(deficit)	952,222	-	-	(305)	-	-	-	951,917

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Condensed consolidated Statement of Comprehensive Loss data	Six months ended June 30, 2022 (Unaudited)							Amounts as reported under IFRSs
	Amounts as reported under U.S. GAAP	IFRSs adjustments					Amounts as reported under IFRSs	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
		Classification and measurement of preferred shares (Note(a))	Listing expenses (Note(b))	Operating leases (Note(c))	Share-based compensation (Note(d))	Expected credit loss (Note(e))	Long-term investments (Note(f))	
Research and development expenses	(84,809)	-	-	116	(2,261)	-	-	(86,954)
Sales and marketing expenses	(30,339)	-	-	93	(1,156)	-	-	(31,402)
General and administrative expenses	(35,160)	-	(3,244)	4	(9,399)	(208)	-	(48,007)
Other non-operating incomes, net	1,347	-	-	149	-	-	-	1,496
Financial income/(loss), net	1,549	-	-	(435)	-	-	(1,146)	(32)
Net loss	(90,822)	-	(3,244)	(73)	(12,816)	(208)	(1,146)	(108,309)
Other comprehensive loss/(income)	(9,196)	-	-	-	-	-	1,146	(8,050)
Net comprehensive loss	(100,018)	-	(3,244)	(73)	(12,816)	(208)	-	(116,359)

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Condensed consolidated Statement of Comprehensive Loss data	Six months ended June 30, 2023 (Unaudited)							Amounts as reported under IFRSs
	Amounts as reported under U.S. GAAP	IFRSs adjustments					Amounts as reported under IFRSs	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
		Classification and measurement of preferred shares (Note(a))	Listing expenses (Note(b))	Operating leases (Note(c))	Share-based compensation (Note(d))	Expected credit loss (Note(e))	Long-term investments (Note(f))	
Research and development expenses	(54,525)	-	-	123	2,670	-	-	(51,732)
Sales and marketing expenses	(20,085)	-	-	40	1,536	-	-	(18,509)
General and administrative expenses	(41,066)	-	-	17	7,148	-	8,050	(25,851)
Other non-operating incomes, net	1,556	-	-	-	-	-	-	1,556
Financial income/(loss), net	18,775	-	-	(200)	-	-	(1,053)	17,522
Net loss/(income)	(44,594)	-	-	(20)	11,354	-	6,997	(26,263)
Other comprehensive income/(loss)	1,743	-	-	-	-	-	(6,997)	(5,254)
Net comprehensive loss/(income)	(42,851)	-	-	(20)	11,354	-	-	(31,517)

(a) Classification and measurement of preferred shares

Under U.S. GAAP, the preferred shares of the Company are accounted for as mezzanine equity. The Preferred Shares are recorded initially at fair value, net of issuance costs, and carried at the amount recorded at inception and no subsequent changes are needed.

Under IFRSs, the preferred shares, represent a financial liability with embedded features. The preferred shares are measured at fair value and designated as of fair value through profit or loss with issuance costs recorded in general and administrative expenses. The issuance costs are recorded in profit or loss. The amount of change in the fair value of the financial liability that is attributable to changes in the Company's own credit risk shall be presented in other comprehensive income; the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

All the preferred shares of the Company were converted into ordinary shares upon the completion of IPO in March 2021. Consequently, the reconciliation includes a difference between accumulated deficit and additional paid-in capital between U.S. GAAP and IFRSs of US\$5,513,140 and US\$5,513,140 (unaudited) as of December 31, 2022 and June 30, 2023.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(b) Listing expenses

Under U.S. GAAP, specific incremental costs considered directly attributable to the offering of equity securities ("listing expenses") may be deferred and capitalized against the gross proceeds of the offering.

Under IFRSs, only those listing expenses considered directly attributable to the issuance of new shares to investors can be capitalized. Those listing expenses considered directly attributable to the listing of existing shares on a stock exchange are not considered transaction costs that qualify for capitalization. Such costs should be expensed as incurred instead.

Accordingly, for the six months ended June 30, 2022 and 2023, the reconciliation also includes an expense recognition difference in the condensed consolidated statements of comprehensive loss of US\$3,244 (unaudited) and nil (unaudited) in relation to the listing expenses of the Hong Kong Dual Primary Listing in 2022.

(c) Operating leases

For operating leases under U.S. GAAP, the subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement, while the right-of-use asset is remeasured at the amount of the lease liability, adjusted for the remaining balance of any lease incentives received, cumulative prepaid or accrued rents, unamortized initial direct costs and any impairment. This treatment under U.S. GAAP results in straight line expense being incurred over the lease term, as opposed IFRSs which generally yields a "front-loaded" expense with more expense recognized in earlier years of the lease.

Accordingly, the reconciliation includes an expenses difference recognized in the condensed consolidated statements of comprehensive loss of US\$73 (unaudited) and US\$20 (unaudited) for each of the six months ended June 30, 2022 and 2023, respectively. The reconciliation also includes a difference in total shareholders' equity of US\$285 and US\$305 (unaudited) as of December 31, 2022 and June 30, 2023.

(d) Share-based compensation

The Group granted Share Options and Restricted Shares Units with service condition to employees and consultants who rendered services that are similar to those rendered by employees, and the share-based compensation expenses were recognized over the vesting period using straight-line method with election of no estimation of expected forfeitures under U.S. GAAP. While under IFRSs, the graded vesting method with forfeitures estimation must be applied. Accordingly, the reconciliation includes an expense recognition difference in the condensed consolidated statements of comprehensive loss of US\$12,816 (unaudited) and a reverse of expense recognition difference in the consolidated statements of comprehensive loss of US\$11,354 (unaudited) for the six months ended June 30, 2022 and 2023, respectively.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(e) Expected credit loss

Before effectiveness of ASC 326, credit losses, under U.S. GAAP, a number of impairment models exist for various types of financial instruments not measured at fair value through net income. These models recognize impairments when losses have been incurred, as opposed to expected in the future. For loans, the overriding concept in U.S. GAAP is that impairment losses should be recognized when, based on all available information, it is probable that a loss has been incurred based on events and conditions existing at the date of the financial statements. Losses are not to be recognized before it is probable that they have been incurred, even though it may be probable or expected based on past experience that losses will be incurred in the future. For trade receivables, most entities use reserving matrices in which historical loss percentages are applied to the respective aging categories. Those historical loss percentages typically are not adjusted for future expectations. Receivables that are either current or not yet due do not generally have a reserve. For available for sale securities, entities generally record an impairment loss when the decline in fair value is "other than temporary."

IFRS 9 introduced an expected loss model for financial assets. While certain simplifications exist for trade receivables, notes receivables and other current assets, the general model applies to assets at amortized cost and FVOCI. Unlike current U.S. GAAP, the model is forward looking and incorporates historical information, current information, and reasonable and supportable forecasts of future conditions. The model contains three stages for measuring impairment losses based on the changes in credit quality of the instrument since inception. Stage 1 includes financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition or that have low credit risk at the reporting date. For these assets, an entity will typically record a 12-month Expected Credit Losses (ECL). It is not the expected cash shortfalls over the 12-month period, but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Stage 2 includes financial instruments that have had a SICR since initial recognition. For these assets, lifetime ECL is recognized, but interest revenue is still recognized on the gross carrying amount of the asset. Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount. An entity is required to continually assess whether a SICR has occurred. The Group expects that there is no significant credit risk associated with other financial assets, such as cash and cash equivalents and time deposits, since they are substantially deposited at state owned banks and other medium or large-sized listed banks.

Accordingly, the reconciliation includes a difference of expenses recognized in the consolidated statements of condensed comprehensive loss of US\$208 (unaudited) for each of the six months ended June 30, 2022. The reconciliation also includes a decrease in assets of US\$460 as of December 31, 2022.

After effectiveness of ASC 326 since December 16, 2022, U.S. GAAP requires that the allowance for loan losses be determined based on the amortized cost of the financial asset, which includes all premiums, discounts, and other adjustments. The use of some approaches to estimating the expected credit losses, such as discounted cash flow (DCF), already requires consideration of premiums and discounts included in the amortized cost. When using the DCF method, expected cash flows are discounted at the effective interest rate of the financial asset.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

(All amounts in US\$ thousands ("US\$"), except for share and per share data, unless otherwise noted)

23. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(e) Expected credit loss (Continued)

The Group adopted ASC 326 since January 1, 2023 and its accounts receivable, notes receivable, prepayments and other assets and investment in available-for-sale debt securities are within the scope of ASC 326 under U.S GAAP as well as IFRS 9. To estimate expected credit losses, the Group has identified the relevant risk characteristics of its customers, the related receivables and other receivables which include size, term of cooperation, historical transaction, term of service, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers development and weighting of macroeconomic forecasts, incorporation of historical loss experience, non-performing loan ratio of commercial banks by industry, external credit rating and the forward-looking macroeconomic conditions. Management decides the financial impact of above valuation methodology for expected credit loss has no material difference between CECL model under U.S. GAAP and ECL model under IFRSs, and therefore, the reconciliation item of expected credit loss no long necessary since January 1, 2023.

(f) Long-term Investments

The Group made a series of long-term investments in privately held companies (the "Investees") during the Track Record Period. From the Group's perspective, for those investments on which the Group has no significant influence, since those investments could not meet the definition of the equity instrument, and the contractual cashflow could not pass the Solely Payments of Principal and Interest (the "SPPI") test, thus under IFRSs they should be classified as financial assets measured at fair value through profit or loss; For remaining investments on which the Group has significant influence, since the Group has some special preferential rights over the equity investments, such as redemption rights, anti-dilution rights and etc., and distinguish the risks and rights of the Group from other ordinary shareholders, thus under IFRSs, the long-term investments are also classified as financial assets measured at fair value through profit or loss. However, under U.S. GAAP, all forementioned investments were classified as available-for-sale debt investments and were measured at fair value through other comprehensive income, other than impairment losses. After the adoption of ASU 2016-13, the impairment assessment of all forementioned investments are also subject to ASU 2016-13.

Accordingly, the reconciliation includes a reclassification between long-term investments and financial assets at fair value through profit or loss of US\$17,665 and US\$16,612 (unaudited) as of December 31, 2022 and June 30, 2023. For the six months ended June 30, 2022 and 2023, the fair value changes of the Group's investments in these privately held companies were in loss of US\$1,146 (unaudited) and US\$1,053 (unaudited), respectively. Additionally, due to the credit related impairment of an available-for-sale debt investment under U.S. GAAP, credit loss expense of US\$8,050 (unaudited) was reclassified from general and administrative expenses to financial income/(loss) under IFRSs.

Definitions

In this report, the following expressions have the meanings set out below unless the context requires otherwise.

“2015 Equity Incentive Plan”	the equity incentive plan the Company adopted on December 23, 2014, as amended from time to time
“ADS(s)”	American Depositary Shares, each representing one Class A Ordinary Share
“Articles” or “Articles of Association”	the ninth amended and restated articles of association of the Company adopted by a special resolution of the Shareholders on November 1, 2022 and effective on November 1, 2022
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China” or “the PRC”	the People’s Republic of China, and for the purposes of this report only, except where the context requires otherwise, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Class A Ordinary Shares”	class A ordinary shares of the share capital of the Company with a par value of US\$0.00005 each, conferring a holder of a Class A Ordinary Share one vote per Share on any resolution tabled at the Company’s general meeting
“Class B Ordinary Shares”	class B ordinary shares of the share capital of the Company with a par value of US\$0.00005 each, conferring weighted voting rights in the Company such that a holder of a Class B Ordinary Share is currently entitled to ten votes per Share on any resolution tabled at the Company’s general meeting, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per Share
“Company” or “our Company”	Tuya Inc., an exempted company with limited liability incorporated in the Cayman Islands on August 28, 2014
“Compensation Committee”	the compensation committee of the Board
“Consolidated Affiliated Entity(ies)”	entities the Group control wholly or partly through the Contractual Arrangements, namely Hangzhou Tuya Technology and its subsidiaries (if any)
“Contractual Arrangement(s)”	the series of contractual arrangements entered into between Hangzhou Tuya Information Technology Co., Ltd.* (杭州塗鴉信息技術有限公司), the Consolidated Affiliated Entity and the Registered Shareholders (as applicable) on December 23, 2014, first amended and restated on August 23, 2019 (as applicable), and further amended and restated on January 19, 2022

Definitions

“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	The Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Corporate Governance Committee”	the corporate governance committee of the Board
“Depository”	The Bank of New York Mellon, the depository of our ADSs
“Depository Shares”	Shares and/or ADSs underlying Class A Ordinary Shares already issued and registered in the name of the Depository which may be used to satisfy any future exercise or vesting of awards granted under the 2015 Equity Incentive Plan
“Director(s)”	the director(s) of the Company
“GAAP”	generally accepted accounting principles
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group”, “we”, “us”, or “our”	the Company, its subsidiaries and the Consolidated Affiliated Entities from time to time, and where the context requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries and Consolidated Affiliated Entities, such subsidiaries and Consolidated Affiliated Entities as if they were subsidiaries and Consolidated Affiliated Entities of the Company at the relevant time
“Hangzhou Tuya Technology”	Hangzhou Tuya Technology Co., Ltd.* (杭州塗鴉科技有限公司), a limited liability company established under the laws of the PRC on June 16, 2014 and a Consolidated Affiliated Entity
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Public Offering”	the offer of the 730,000 Class A Ordinary Shares for subscription by the public in Hong Kong on the terms and subject to the conditions described in the Prospectus
“International Offering”	the conditional placing of the 6,570,000 Class A Ordinary Shares
“Lawsuit”	a putative securities class action lawsuit filed in the United States District Court for the Southern District of New York which is purportedly brought on behalf of a class of persons or entities who purchased ADSs in or traceable to the Company’s U.S. Listing, alleging violation of the disclosure requirements under the U.S. Securities Act of 1933

Definitions

“Latest Practicable Date”	September 10, 2023, being the latest practicable date prior to the bulk printing and publication of this report
“Listing”	the listing of the Class A Ordinary Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	July 5, 2022, the date on which the Class A Ordinary Shares were listed and on which dealings in the Class A Ordinary Shares were to be first permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum”	the ninth amended and restated memorandum of association of the Company adopted by a special resolution of the Shareholders on November 1, 2022 and effective on November 1, 2022
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Mr. Chen”	Mr. Chen Liaohan (陳燎罕), the founder, an executive Director, co-chairman of the Board, president of the Company, and one of our Controlling Shareholders
“Mr. Wang’s Family Trust”	a trust established on February 1, 2021 by Mr. Wang, as the settlor with TMF (Cayman) Ltd. as the trustee and Mr. Wang and Tuya Group Inc. being the beneficiaries
“Mr. Wang”	Mr. Wang Xueji (王學集), the founder, an executive Director, co-chairman of the Board, chief executive officer of the Company, and one of our Controlling Shareholders
“Mr. Yang”	Mr. Yang Yi (楊懿), the co-founder, an executive Director and chief operation officer of the Company
“Nomination Committee”	the nomination committee of the Board
“NYSE”	the New York Stock Exchange
“OEM(s)”	original equipment manufacturer(s)

Definitions

“Prospectus”	the prospectus of the Company dated June 22, 2022
“Registered Shareholders”	the registered shareholders of our Consolidated Affiliated Entity, namely, Mr. Wang, Mr. Chen, Mr. ZHOU Ruixin, Mr. LIN Yaona and Mr. CHEN Peihong
“Reporting Period”	the six months ended June 30, 2023
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Listing Rules and the Articles of Association, being: (i) any amendment to the Memorandum or Articles, (ii) the variation of the rights attached to any class of shares, (iii) the appointment, election or removal of any independent non-executive Director, (iv) the appointment or removal of the Company’s auditors, and (v) the voluntary liquidation or winding-up of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“RSU(s)”	restricted stock unit(s) covering a number of Class A Ordinary Shares that may be settled in cash, by issuance of those Class A Ordinary Shares at a date in the future, or by a combination of cash and Class A Ordinary Shares that is granted pursuant to the 2015 Equity Incentive Plan
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	the Class A Ordinary Share(s) and Class B Ordinary Share(s) in the share capital of the Company, as the context so requires
“Shareholder(s)”	holder(s) of the Share(s)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Tencent”	Tencent Holdings Limited, its subsidiaries and/or its controlled affiliated entities, as the context requires. Tencent Holdings Limited (stock code: 700), was incorporated in the Cayman Islands with limited liability and is currently listed on the Hong Kong Stock Exchange
“Tenet Global”	Tenet Global Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of BVI on December 31, 2020, which is wholly-owned by Tenet Smart and ultimately controlled by Mr. Wang

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“Tenet Group”	Tenet Group Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of BVI on January 8, 2021, which is wholly-owned by Tenet Global and ultimately controlled by Mr. Wang
“Tenet Smart”	Tenet Smart Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of BVI on January 20, 2021, which is wholly-owned by TMF (Cayman) Ltd., being a limited liability company incorporated in the Cayman Islands on September 30, 1994, the trustee of Mr. Wang’s Family Trust, of which the settlor is Mr. Wang and the beneficiaries are Mr. Wang and Tuya Group Inc.
“Tenet Vision”	Tenet Vision Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of BVI on December 16, 2021, which is wholly-owned by Tenet Global and ultimately controlled by Mr. Wang
“Tuya Group Inc.”	Tuya Group Inc., one of our Controlling Shareholders, a business company with limited liability incorporated under the laws of BVI on August 20, 2014, which is wholly-owned by Mr. Wang
“Unileo”	Unileo Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of BVI on December 23, 2020, which is wholly-owned by Mr. Chen
“U.S. GAAP”	generally accepted accounting principles in the United States of America
“U.S. Listing”	the listing of the ADS of the Company on the New York Stock Exchange in 2021
“weighted voting right(s)” or “WVR”	has the meaning ascribed to it in the Listing Rules
“WVR Beneficiaries”, each a “WVR Beneficiary”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Wang and Mr. Chen, being the beneficial owners of the Class B Ordinary Shares which carry weighted voting rights
“WVR Structure”	has the meaning ascribed to it in the Listing Rules
“%”	per cent

* For identification purposes only

