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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2023

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-41500

Intchains Group Limited

(Exact Name of Registrant as Specified in Its Charter)

Not applicable

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

c/o Building 16, Lane 999,
Xinyuan South Road, Lin-Gang Special Area,
Pudong, Shanghai, 201306,
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(Address of Principal Executive Offices)

Chaowei Yan

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing two Class A ordinary shares, par value \$0.000001 per share	ICG	The Nasdaq Stock Market LLC (The Nasdaq Capital Market)
Class A Ordinary Shares, par value US\$0.000001 per share*	N/A	The Nasdaq Stock Market LLC (The Nasdaq Capital Market)

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 119,876,032 ordinary shares

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant

included in the filing reflect the correction of an error to previously issued financial statements.

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

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

U.S. GAAP

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

Other

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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

TABLE OF CONTENTS

	<u>Page</u>
<u>Introduction</u>	1
<u>Forward-looking Statements</u>	2
<u>Part I.</u>	3
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	3
<u>Item 2. Offer Statistics and Expected Timetable</u>	3
<u>Item 3. Key Information</u>	3
<u>Item 4. Information on the Company</u>	41
<u>Item 4A. Unresolved Staff Comments</u>	58
<u>Item 5. Operating and Financial Review and Prospects</u>	58
<u>Item 6. Directors, Senior Management and Employees</u>	70
<u>Item 7. Major Shareholders and Related Party Transactions</u>	78
<u>Item 8. Financial Information</u>	78
<u>Item 9. The Offer and Listing</u>	79
<u>Item 10. Additional Information</u>	79
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	85
<u>Item 12. Description of Securities Other Than Equity Securities</u>	86
<u>Part II.</u>	88
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	88
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	88
<u>Item 15. Controls and Procedures</u>	88
<u>Item 16. Reserved</u>	89
<u>Item 16A. Audit Committee Financial Expert</u>	89
<u>Item 16B. Code of Ethics</u>	89
<u>Item 16C. Principal Accountant Fee and Services</u>	89
<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	90
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	90
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	90
<u>Item 16G. Corporate Governance</u>	90
<u>Item 16H. Mine Safety Disclosure</u>	90
<u>Item 16I. Disclosure regarding Foreign Jurisdictions that Prevent Inspections</u>	90
<u>Item 16J. Insider Trading Policies</u>	90
<u>Item 16K. Cybersecurity</u>	91
<u>Part III.</u>	92
<u>Item 17. Financial Statements</u>	92
<u>Item 18. Financial Statements</u>	92
<u>Item 19. Exhibits</u>	93
<u>Signature</u>	94

INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

- unless otherwise noted, all references to years are to the calendar years from January 1 to December 31 and references to our fiscal year or years are to the fiscal year or years ended December 31.
- “ADRs” refers to the American depository receipts, which, if issued, evidence our ADSs.
- “ADSs” refers to our American depository shares, each of which represents two Class A ordinary shares.
- “ASICs” refers to application-specific ICs, meaning ICs designed for a specific application.
- “CAC” refers to the Cyberspace Administration of China.
- “China” or the “PRC”, in each case, refers to the People’s Republic of China, including Hong Kong, Macau and Taiwan. The term “Chinese” has a correlative meaning for the purpose of this annual report. When used in the case of laws and regulations, of “China” or “the PRC”, it refers to only such laws and regulations of mainland China all references to “Renminbi” or “RMB” are to the legal currency of mainland China, and all references to “U.S. dollars,” “dollars,” “\$” or “US\$” are to the legal currency of the United States.
- “Class A ordinary shares” refers to our class A ordinary shares, par value US\$0.000001 per share.
- “Class B ordinary shares” refers to our class B ordinary shares, par value US\$0.000001 per share.
- “Company” refers to Intchains Group Limited, a Cayman Islands company and its subsidiaries.
- “CSRC” refers to the China Securities Regulatory Commission.
- “EIT” refers to enterprise income tax.
- “IC” or “chips” refers to integrated circuits.
- “iterate” or “iteration” refers to the act of repeating a process, either to generate an unbounded sequence of outcomes, or with the aim of approaching a desired goal, target or result.
- “mainland China” refers to the People’s Republic of China, excluding, solely for the purpose of this annual report, Hong Kong, Macau and Taiwan. The term “mainland Chinese” has a correlative meaning for the purpose of this report.
- “PRC law(s) and regulation(s)” refers to the laws and regulations of mainland China.
- “nm” refers to nanometer.
- “MIIT” refers to the Ministry of Industry and Information Technology of China.
- “ordinary shares” or “shares” refer to our Class A ordinary shares and Class B ordinary shares.
- “PoW” refers to proof-of-work.
- “RMB” and “Renminbi” refer to the legal currency of mainland China.
- “tape-out” refers to the final result of the design process for ICs when the graphic for the photomask of the IC is sent to the fabrication facility, and a successful tape-out means all the stages in the design and verification process of ICs have been completed.
- “US\$” and “U.S. dollars” refer to the legal currency of the United States.
- “U.S. GAAP” refers to generally accepted accounting principles in the United States.
- “we,” “us,” “our company,” “the Group,” and “our” refer to the Company and its subsidiaries, as the context requires.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2021, 2022 and 2023, and the related notes. Each ADS represents two class A ordinary shares. Our ADSs are listed on the Nasdaq Capital Market, or Nasdaq, under the symbol “ICG”.

We conduct our business primarily in China and the majority of our revenues and expenses are denominated in Renminbi. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in the City of New York for cable transfers of Renminbi per U.S. dollars certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report are made at a rate of RMB7.0999 to US\$1.00, the noon buying rate in effect as of December 29, 2023. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical facts in this annual report are forward-looking statements. In some cases, these forward-looking statements can be identified by words and phrases such as “may,” “should,” “intend,” “predict,” “potential,” “continue,” “will,” “expect,” “anticipate,” “estimate,” “plan,” “believe,” “is /are likely to” or the negative form of these words and phrases or other comparable expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our future prospects and market acceptance of our products and services;
- our future business development, financial condition and results of operations;
- expected changes in our revenue, costs or expenditures;
- anticipated cash needs and its needs for additional financing;
- growth of and competition trends in our industry;
- our ability to successfully integrate acquisitions;
- our expectations regarding demand for, and market acceptance of, our products;
- expectations with respect to the success of our research and development efforts;
- expectations regarding our growth rates, growth plans and strategies;
- general economic and business conditions in the markets in which we operate;
- relevant government policies and regulations relating to our business and industry;
- PRC laws, regulations and policies, including those applicable to the IC industry and foreign exchange;
- the impact of the geopolitical tensions between the United States and China or other countries, and the impact of actual or potential international military actions;
- the impact of the outbreak and continuing spread of the coronavirus disease, or COVID-19, and other pandemics or natural disasters; and
- assumptions underlying or related to any of the foregoing.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. All forward-looking statements included herein attributable to us or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and under the heading “Risk Factors” below. Except to the extent required by applicable laws and regulations, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Overview

We are a provider of integrated solutions of high-performance computing ASIC chip products for blockchain applications. We have a fabless business model and specialize in the front-end and back-end of IC design, which are the major components of the IC product development chain. We have strong supply chain management through our well-established business partnership with a leading foundry, which helps to ensure our product quality and stable production output.

Our products primarily include high-performance computing ASIC chip products consisting of ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. We have built a proprietary technology platform named “Xihe” Platform, which allows us to develop a wide range of ASIC chips with high efficiency and scalability. We design our ASIC chips in-house, which enables us to leverage proprietary silicon data to deliver products reflecting the latest technological developments ahead of our competitors. As of December 31, 2023, we had completed a total of nine tape-outs using our “Xihe” Platform for 22nm and 12nm ASIC chips, achieving a 100% success rate for all our tape-outs.

The blockchain industry experienced challenges in 2023 and uncertainties in the market had negatively impacted our business performance. Our total revenue decreased from RMB631.8 million in 2021 to RMB473.7 million (US\$68.7 million) in 2022 and further decreased to RMB82.2 million (US\$11.6 million) in 2023. Our net income decreased from RMB450.1 million in 2021 to RMB355.2 million in 2022. We recorded a net loss of RMB26.8 million (US\$3.8 million) in 2023.

Despite these challenges, we maintain our confidence in our business strategy and long-term prospects, particularly as the broad market has shown signs of recovery in the fourth quarter of 2023. Our strong commitment to advanced research and development enables us to continuously innovate and create ASIC chips with superior performance to power ratio at reasonable cost. Our latest ASIC chip, designed and manufactured using a 12nm process node, completed the relevant IC verification and trial production processes in February 2024 and is set to enter mass production in March 2024. In addition, we initiated our business expansion in Singapore in 2023 by dispatching members of senior management to station in Singapore and entering dialogues with potential local distributors for cooperation. In December 2023, we entered into an asset acquisition agreement with a Singapore-based company to purchase certain assets used in the operation of its Goldshell WEB3 infrastructure brand with the aim of enabling us to enter the downstream production and sales sector across computing equipment for blockchain applications and other WEB3 infrastructure-related hardware and software products. We completed such acquisition in February 2024.

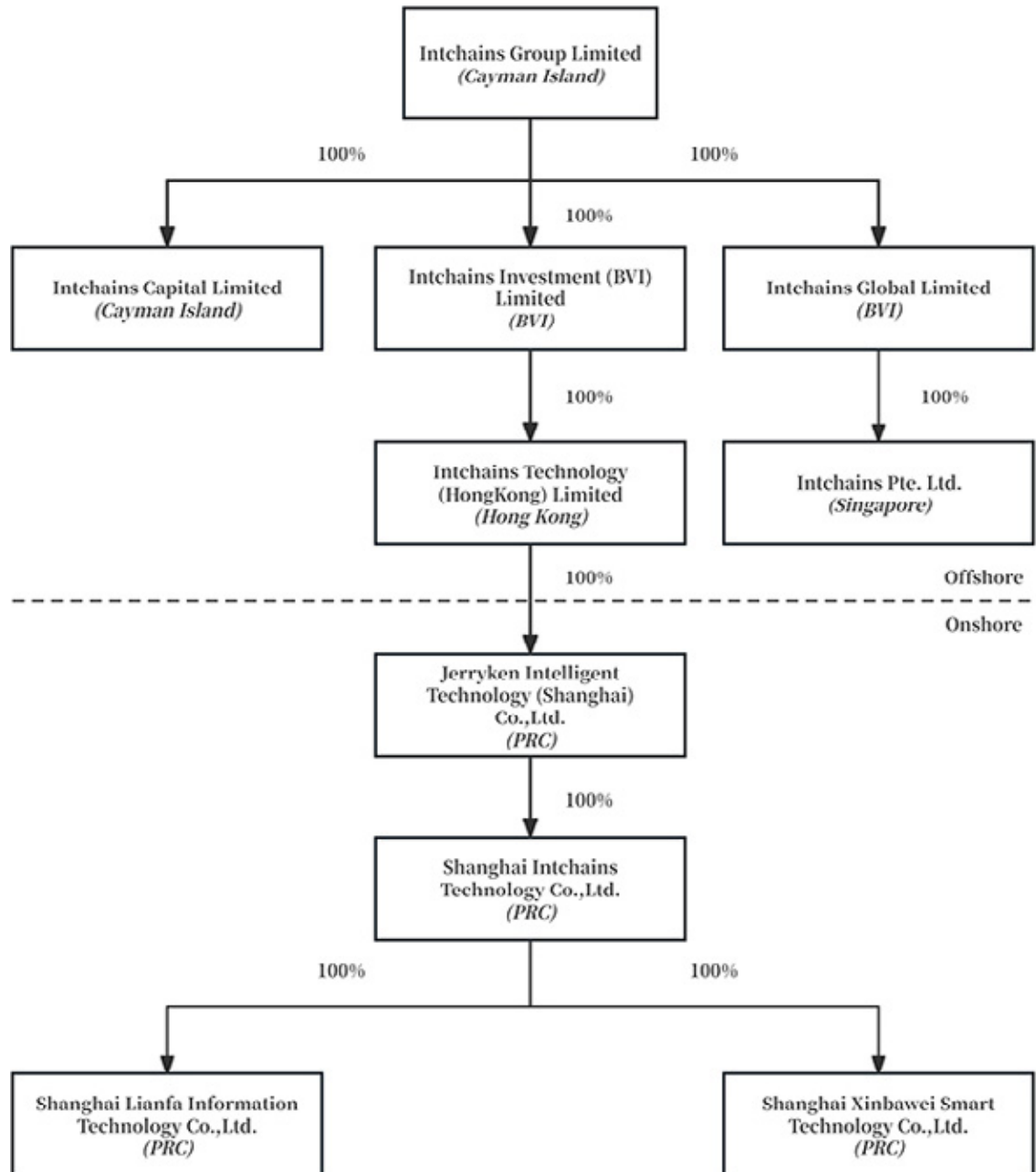
We operate business primarily in China and are subject to complex and evolving PRC laws and regulations. Uncertainties in the PRC legal system and the interpretation and enforcement of PRC laws and regulations could limit the legal protection available to you and us, hinder our ability to offer our ADSs in the future, result in a material adverse effect on our business operations, and damage our reputation, which might further cause our ADSs to significantly decline in value or become worthless. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC.”

Our Corporate Structure

We are not a Chinese operating company but a Cayman Islands holding company with operations primarily conducted through our operating subsidiaries based in mainland China. The “Company” and “our Company” refer to Intchains Group Limited, a Cayman Islands company. “We,” “us,” and “our” refer to Intchains Group Limited and its subsidiaries. In mainland China, we conduct our business through Jerryken Intelligent Technology (Shanghai) Co., Ltd., or Jerryken Shanghai, and Shanghai Intchains Technology Co., Ltd., or Shanghai Intchains, each an indirect wholly owned subsidiary of the Company, and two operating subsidiaries wholly owned by Shanghai Intchains. In 2023, we initiated our business operations in Singapore through Intchains Pte. Ltd., which is an indirect wholly-owned subsidiary of the Company. Intchains Pte. Ltd. incurred expenses and did not generate any revenue in 2023.

Intchains Group Limited holds all of the equity interests in its PRC subsidiaries through subsidiaries incorporated in the British Virgin Islands, or BVI, and Hong Kong. As we have a direct equity ownership structure, we do not have any agreement or contract between our Company and any of its subsidiaries that are typically seen in a variable interest entity structure. Within our direct equity ownership structure, funds from foreign investors can be directly transferred to our PRC subsidiaries by way of capital injection or in the form of a shareholder loan from Intchains Group Limited. If the Company plans to distribute dividends to its shareholders, our PRC operating subsidiaries will transfer the funds to the Company through our subsidiaries incorporated in the BVI and Hong Kong, and the Company will then distribute dividends to all shareholders in proportion to the shares they hold, regardless of the citizenship or domicile of the shareholders.

The following diagram illustrates our simplified corporate structure as of the date of this annual report:



Government Regulations and Permissions

We have been advised by Jingtian & Gongcheng, our PRC legal adviser, that, as of the date of this annual report, we have obtained all necessary permissions, approvals and authorizations in mainland China in all material aspects in relation to conducting our business operations in mainland China. Except for the business licenses issued by the local branch of the State Administration for Market Regulation, which our PRC subsidiaries have obtained and are in full force and effect as of the date of this annual report, Intchains Group Limited and our PRC subsidiaries are not required to obtain other licenses, approvals or permits to conduct our business operations in mainland China. However, as PRC laws and regulations with respect to certain licenses and permissions are unclear and are subject to interpretations and enforcement of local governmental authorities, we may inadvertently conclude that certain permissions and approvals are not required but the regulators do not take the same view as we do. Also, if applicable laws, regulations or interpretations change, we may be required to obtain additional licenses or approvals. Moreover, there may be new rules, regulations, government interpretations or government policies in China to govern the businesses we currently operate. Such new rules, regulations, government interpretations or government policies may subject our business operations to additional license or filing requirements.

Cash Flow and Assets Transfer within Our Organization

Intchains Group Limited is a Cayman Islands holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries. As a result, although other means are available for us to obtain financing at the holding company level, the ability of Intchains Group Limited to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends primarily paid by our PRC subsidiaries. If any of our PRC subsidiaries incurs debt on its own behalf, the instruments governing such debt may restrict its ability to pay dividends to Intchains Group Limited. In addition, under PRC laws and regulations, our PRC subsidiaries are permitted to pay dividends to Intchains Group Limited only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the PRC subsidiaries. For more details, see “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources—Holding Company Structure.”

Under PRC laws and regulations, our PRC subsidiaries are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by State Administration of Foreign Exchange, or SAFE. For risks relating to the fund flows of our operations in China, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—Government control of foreign currency conversion may affect the value of your investment.”

We have never declared or paid any dividends on our ordinary shares since our inception, nor have any present plan to pay any dividends on our ordinary shares or ADSs in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” For PRC and United States federal income tax considerations of an investment in our ADSs, see “Item 10. Additional Information—E. Taxation.” For the year ended December 31, 2023, except for inter-company transactions that occurred in the ordinary course of business, no cash or other asset transfers occurred among Intchains Group Limited and its subsidiaries, and no dividends or distributions from a subsidiary were made to Intchains Group Limited or other investors.

Dividends or Distributions Made to the Company and Tax Consequences Thereof

Our subsidiaries did not make any dividends or distributions to us for years ended December 31, 2021, 2022 and 2023. If any dividend is paid by our PRC subsidiaries to the Company in the future, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless reduced under treaties or arrangements between the PRC central government and the governments of other countries or regions where the non-PRC resident enterprises are tax resident. Pursuant to the tax agreement between mainland China and the Hong Kong Special Administrative Region, the withholding tax rate in respect of the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10%. However, if the relevant tax authorities determine that our transactions or arrangements are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future. Accordingly, there is no assurance that the reduced 5% withholding rate will apply to dividends received by our Hong Kong subsidiary from our PRC subsidiaries. If the Company or its offshore subsidiaries are deemed to be a PRC resident enterprise (we do not currently consider the Company or its offshore subsidiaries to be PRC resident enterprises), the withholding tax may be exempted, but the Company or its offshore subsidiaries will be subject to a 25% tax on our worldwide income, and our non-PRC enterprise investors may be subject to PRC income tax withholding at a rate of 10%. See “—D. Risk Factors—Risks Relating to Regulations of Our Business—We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.” and “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.”

Dividends or Distributions Made to the U.S. Investors and Tax Consequences Thereof

We did not make any dividends or distributions to our shareholders for years ended December 31, 2021, 2022 and 2023. Any future determination to pay dividends will be made at the discretion of our board of directors and will be based upon our future operations and earnings, capital requirements and surplus, general financial condition, shareholders' interests, contractual restrictions and other factors our board of directors may deem relevant.

Under the current laws of the Cayman Islands, no Cayman Islands withholding tax is imposed upon any payments of dividends by the Company. However, if the Company is considered a PRC tax resident enterprise for tax purposes (we do not currently consider the Company to be a PRC resident enterprise), any dividends that the Company pays to its overseas shareholders may be regarded as China-sourced income and as a result may be subject to PRC withholding tax. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Regulations of Our Business—We may be classified as a "resident enterprise" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation."

In addition, subject to the passive foreign investment company rules, the gross amount of any distribution that the Company makes to investors with respect to our ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as a dividend, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Based on the past and projected composition of our income and assets, and the valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or a PFIC, in the current taxable year or in the foreseeable future, although there can be no assurance in this regard. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Regulations of Our Business—We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors" and "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company."

Restrictions on Foreign Exchange and Our Ability to Transfer Cash Between Entities, Across Borders, and to U.S. Investors, and Restrictions and Limitations on Our Ability to Distribute Earnings from Our Businesses

We face various restrictions and limitations that impact our ability to transfer cash between our entities, across borders and to U.S. investors, and our ability to distribute earnings from our business, including our subsidiaries, to the Company and U.S. investors.

- We are not a Chinese operating company but a Cayman Islands holding company with operations conducted primarily through our PRC subsidiaries. As a result, although other means are available for us to obtain financing at the Company level, the Company's ability to fund operations not conducted by our PRC subsidiaries, pay dividends to its shareholders, or service any debt it may incur may depend upon dividends paid by our PRC subsidiaries. If any of our PRC subsidiaries incurs debt on its own in the future, the instruments governing such debt may restrict its ability to pay dividends to the Company. If any of our PRC subsidiaries is unable to receive all or the majority of the revenues from their operations, we may be unable to pay dividends on our ADSs or common shares.
- Due to restrictions on foreign exchange placed on our PRC subsidiaries by the PRC government under PRC laws and regulations, to the extent cash is located in mainland China or within an entity domiciled in mainland China and may need to be used to fund our operations outside of mainland China, the funds may not be available due to such limitations unless and until related approvals and registrations are obtained. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of mainland China. The majority of our revenue is or will be received in Renminbi and shortages in foreign currencies may restrict our ability to pay dividends or other payments. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, as long as certain procedural requirements are met. Approval from or filing with appropriate government authorities is required if Renminbi is converted into foreign currency and remitted out of mainland China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our shareholders or repay our loans. See "Item 3. Key Information—D. Risk Factors—Government control of foreign currency conversion may affect the value of your investment."
- Under PRC laws and regulations, each of our PRC operating subsidiaries may only pay dividends after 10% of its net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of its registered capital. In addition, the profit available for distribution from our PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. This calculation may differ if it were performed in accordance with U.S. GAAP. See "Item 3. Key Information—D. Risk Factors—Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions in a timely manner."

- Due to various requirements imposed by PRC laws and regulations on loans to and direct investment in PRC entities by offshore holding companies, any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed a statutory limit, and shall be filed with SAFE or its local counterparts. Furthermore, any capital contributions we make to our PRC subsidiaries shall be registered with the PRC State Administration for Market Regulation or its local counterparts, and reported to with the Ministry of Commerce or its local counterparts. This may delay or prevent us from using our offshore funds to make loans or capital contribution to our PRC subsidiaries and thus may restrict our ability to execute our business strategy, and materially and adversely affect our liquidity and our ability to fund and expand our business. See “Item 3. Key Information—D. Risk Factors—PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.”
- If the Company is considered a PRC tax resident enterprise for tax purposes (we do not currently consider the Company to be a PRC resident enterprise), any dividends that the Company pays to its overseas shareholders may be regarded as China-sourced income and as a result may be subject to PRC withholding tax. See “Item 3. Key Information—D. Risk Factors— Risks Relating to Regulations of Our Business—Dividends payable by us to our foreign investors and gains on the sale of the ADSs may become subject to withholding taxes under the PRC tax laws.”

Effect of Holding Foreign Companies Accountable Act and Related SEC Rules

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that a company has filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the Public Company Accounting Oversight Board, or PCAOB, for three consecutive years beginning in 2021, the SEC shall prohibit its shares or ADSs from being traded on a national securities exchange or in the over the counter trading market in the U.S. Our auditor, which is based in New York, is currently subject to inspection by the PCAOB at least every three years. However, our auditor’s China affiliate is located in, and organized under the laws of, the PRC.

On March 18, 2021, the SEC adopted on an interim basis rules disclosure requirements for companies with PCAOB member auditors whom the PCAOB has determined that it cannot inspect their operations within a foreign jurisdiction (“Covered Issuers”). Covered companies are required to disclose in their annual reports on Form 20-F: (i) that, during the period covered by the form, the registered public accounting firm has prepared an audit report for the issuer; (ii) the percentage of the shares of the issuer owned by governmental entities in the foreign jurisdiction in which the issuer is incorporated or otherwise organized; (iii) whether governmental entities in the applicable foreign jurisdiction with respect to that registered public accounting firm have a controlling financial interest with respect to the issuer; (iv) the name of each official of the Chinese Communist Party (“CCP”) who is a member of the board of directors of the issuer or the operating entity with respect to the issuer; and (v) whether the articles of incorporation of the issuer (or equivalent organizing document) contains any charter of the CCP, including the text of any such charter. On September 22, 2021, the PCAOB adopted rules governing its procedures for making determinations as to its inability to inspect or investigate registered firms headquartered in a particular foreign jurisdiction or which has an office in a foreign jurisdiction (a “PCAOB-Identified Firm”). Promptly after the effective date of this rule, the PCAOB would make determinations under the HFCA Act to the extent such determinations are appropriate. Thereafter, the PCAOB would consider, at least annually, whether changes in facts and circumstances support any additional determinations. The PCAOB would make additional determinations as and when appropriate, to allow the SEC on a timely basis to identify Covered Issuers pursuant to the SEC rules. The rule became effective when the SEC approved the rule on November 4, 2021.

On December 2, 2021, the SEC finalized its rules regarding disclosure by Covered Issuers. In addition, the release discussed the procedures the SEC will follow in implementing trading prohibitions for Covered Issuers. A foreign company would have to be designated a Covered Issuer three years in a row to be subject to a trading prohibition on that basis. The trading suspension would prohibit trading of the Covered Issuer's securities on any exchange or in the over-the-counter markets. The trading prohibition will be terminated if the Covered Issuer certifies to the SEC that the issuer has retained a registered public accounting firm that the PCAOB has inspected to the satisfaction of the SEC and files financial statements that include an audit report signed by the non-PCAOB-Identified Firm. The SEC is not required to engage in rulemaking to implement the trading prohibition provisions of the HFCA Act. Neither the Act nor the SEC's release create an obligation for an exchange to delist the Covered Issuer, but the SEC noted that under existing listing rules of the exchanges, a trading prohibition would be grounds for delisting. On December 16, 2021, the PCAOB issued a report on its determinations that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong because of positions taken by PRC authorities in those jurisdictions. On August 26, 2022, the PCAOB entered into a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the PRC and, as summarized in the "Statement on Agreement Governing Inspections and Investigations of Audit Firms Based in China and Hong Kong" published on the U.S. Securities and Exchange Commission's official website, the parties agreed to the following: (i) in accordance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the PCAOB shall have independent discretion to select any issuer audits for inspection or investigation; (ii) the PCAOB shall have direct access to interview or take testimony from all personnel of the audit firms whose issuer engagements are being inspected or investigated; (iii) the PCAOB shall have the unfettered ability to transfer information to the SEC, in accordance with the Sarbanes-Oxley Act; and (iv) the PCAOB inspectors shall have access to complete audit work papers without any redactions, with view-only procedures for certain targeted pieces of information such as personally identifiable information. The PCAOB is required to reassess its determinations as to whether it is able to carry out inspection and investigation completely and without obstruction by the end of 2022. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Covered Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Covered Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. If such event were to occur, trading in our securities could in the future be prohibited under the HFCA Act, so we cannot assure you that we will be able to maintain the listing of the ADRs on Nasdaq or that you will be allowed to trade the ADRs in the United States on the "over-the-counter" markets or otherwise. Should the ADRs not be listed or tradeable in the United States, the value of the ADRs could be materially affected.

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

Investing in our ADSs may expose you to a number of risks, including risks relating to our business and industry, risks relating to regulations of our business, risks relating to doing business in the PRC, risks relating to our corporate structure and risks relating to our ADSs. The following summarizes part, but not all, of these risks. Please carefully consider all of the information discussed in “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report which contains a more thorough description of risks relating to investing in us.

Risks Relating to Our Business and Industry

- We have incurred net losses from operating activities in 2023, and we may not achieve or sustain profitability.
- There is no assurance that a cryptocurrency will maintain its long-term value, and volatility in the market prices of cryptocurrencies may adversely affect our business and results of operations.
- The industry in which we operate is characterized by constant changes. If we fail to innovate or to provide products that meet the expectations of our customers, we may be unable to attract new customers or retain existing customers, and as a result our business and results of operations may be adversely affected.
- We are subject to risks associated with legal, political or other conditions or developments regarding holding, using or mining of cryptocurrencies and related products and services, which could negatively affect our business, financial condition, and results of operations.
- We derive a significant portion of our revenue from our ASIC chip products. If the market for our ASIC chip products ceases to exist or diminishes significantly, our business and results of operations would be materially harmed.
- We generate all of our revenue from sales to customers in the PRC. Any adverse development in the regulatory environment in the PRC could have a negative impact on our business, financial condition and results of operations.
- Our ASIC chips business depends mainly on supplies from a single third-party foundry, and any failure to obtain sufficient foundry capacity from this foundry would significantly delay the shipment of our products.
- Mining difficulty for any reason would negatively affect the economic returns of cryptocurrency mining activities, which in turn would decrease the demand for and/or pricing of our products.
- Cryptocurrency exchanges and wallets, and to a lesser extent, the cryptocurrency network itself, may suffer from hacking and fraud risks, which may erode user confidence in cryptocurrency which would in turn decrease the demand for our ASIC chip products.
- Cryptocurrency mining activities are energy-intensive. The availability and cost of electricity will restrict the geographic locations of mining activities, thereby restricting the geographic locations of miners and sales of our products.
- Failure at tape-out or failure to achieve the expected final test yields for our ASIC chips could negatively impact our operating results.
- Any failure of our products to meet the necessary quality standards could adversely affect our reputation, business and results of operation.
- We may be unable to make the substantial investments in research and development that are required to remain competitive in our business.
- Failure to maintain inventory levels in line with the approximate level of demand for our products could cause us to lose sales, expose us to increased inventory risks and subject us to increases in holding costs, risk of inventory obsolescence, increases in markdown allowances and write-offs, any of which could have a material adverse effect on our business, financial condition and results of operations.

- The average selling prices of our products may decrease from time to time due to technological advancement and we may not be able to pass such decreases onto our suppliers, which may in turn adversely affect our profitability.
- If we are unable to effectively execute our growth strategies, maintain our rapid growth trends and manage risks associated with expanding the scale of our operations, our ability to grow our business and establish our overseas market may be negatively affected.
- Our limited operating history and rapid revenue growth may make it difficult for us to forecast our customer demand and our business development, or to assess the seasonality and volatility in our business.
- We rely on a limited number of third parties to package and test our products.
- Our prepayments to suppliers may subject us to counterparty risk associated with such suppliers and negatively affect our liquidity and cash position.

Risks Relating to Doing Business in the PRC

- Changes in the political and economic policies of the Chinese government or in relations between China and the United States may materially and adversely affect our business, financial condition, results of operations and the market price of our ADSs.
- The Chinese government may intervene in or influence our operations at any time, which could result in a material change in our operations and significantly and adversely impact the value of our ADSs.
- Changes in U.S. and Chinese regulations may adversely impact our business, our operating results, our ability to raise capital and the market price of our ADSs.
- The approval of the CSRC, CAC or other Chinese regulatory agencies may be required in connection with our offshore offerings under Chinese law. and, if required, we cannot predict whether we will be able to obtain such approval or complete such filing.
- Recent negative publicity surrounding China-based companies listed in the United States may negatively impact the trading price of our ADSs.
- Changes to and uncertainties in the legal system of the PRC may have a material adverse impact on our business, financial condition and results of operations. Legal protections available to you under the legal system of the PRC may be limited.
- PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to make capital contributions into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position.
- Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions in a timely manner.
- Dividends payable by us to our foreign investors and gains on the sale of the ADSs may become subject to withholding taxes under the PRC tax laws.
- PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.
- We may be classified as a "resident enterprise" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.
- Government control of foreign currency conversion may affect the value of your investment.

Risks Relating to the ADSs

- Recent litigation and negative publicity surrounding China-based companies listed in the United States may negatively impact the trading price of our ADSs.
- The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.
- If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.

- Because we do not expect to pay dividends in the foreseeable future after our initial public offering, you must rely on price appreciation of the ADSs for a return on your investment.
- Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial
- The dual-class structure of our ordinary shares may adversely affect the trading market for our ADSs.
- Our amended and restated memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our Class A ordinary shares and ADSs.

Risks Relating to Our Business and Industry

We have incurred net losses and negative cash flows from operating activities in the past, and we may not achieve or sustain profitability.

We recorded net income of RMB450.1 million and RMB355.2 million in 2021 and 2022, respectively, and recorded a net loss of RMB26.8 million (US\$3.8 million) in 2023. We cannot assure you that we will be able to generate net income from operating activities in the future. Our ability to achieve profitability will depend in large part on our ability to control expenses and manage our growth effectively, achieve a more stable performance given the significant fluctuation and volatility of the prices of cryptocurrencies and blockchain mining business, and maintain our competitive advantage in the relevant markets. We expect to continue to make investments in the development and expansion of our business, which will place significant demands on our management and our operational and financial resources. Continuous expansion may increase the complexity of our business, and we may encounter various difficulties. We may fail to develop and improve our operational, financial and management controls, enhance our financial reporting systems and procedures, recruit, train and retain highly skilled personnel, or maintain customer satisfaction to effectively support and manage our growth. If we invest substantial time and resources to expand our operations but fail to manage the growth of our business and capitalize on our growth opportunities effectively, we may not be able to achieve profitability, and our business, results of operations and financial condition would be materially and adversely affected.

There is no assurance that a cryptocurrency will maintain its long-term value, and volatility in the market prices of cryptocurrencies may adversely affect our business and results of operations.

As a relatively new product based on technologies developed in recent years, cryptocurrencies have only recently been accepted as a means of payment for goods and services by selected industries and in selected markets, and the use of cryptocurrencies by consumers to make payment remains limited. Additionally, as the value of most cryptocurrencies is not anchored by any reserve currency or precious metal, nor is it backed by any government or commercial enterprise, the long-term value of cryptocurrencies is uncertain, which may further increase the volatility in cryptocurrency prices. Banks and other established financial institutions may refuse to process funds for cryptocurrency transactions, process wire transfers to or from cryptocurrency exchanges, or maintain accounts for persons or entities transacting in cryptocurrencies.

Meanwhile, a significant portion of cryptocurrency demand is generated by speculators and investors seeking to profit from the short or long-term holding of cryptocurrencies. The prices of cryptocurrencies may also be impacted by evolving and uncertain regulatory environment and the development of blockchain technology. As a result of the foregoing, the prices of cryptocurrencies have been quite volatile during its limited history.

Our business and financial condition highly correlate with market prices of cryptocurrencies. We primarily offer ASIC chip products and we price our products with reference to the market price of cryptocurrencies and the expected economic return of cryptocurrency mining, among other factors. We derived substantially all of our revenue in 2021 and 2022, and 83.1% of our revenue in 2023, from the sales of ASIC chip products. Any wild fluctuations in the market price of cryptocurrencies may have a material adverse impact on our business, financial condition and results of operations. In addition, if there is a steep increase in the market price of cryptocurrencies, market demand for our ASIC chip products is also likely to surge. In the event that our production and service capabilities cannot quickly catch up, we may lose our customers and market share. In addition, if market demand increases beyond our expectations, we may not be able to maintain an adequate inventory level of our finished goods, and may lose sales and market share to our competitors as a result.

On the other hand, if the market price of cryptocurrencies falls significantly, economic returns for mining activities as well as demand for our ASIC chip products will likely drop rapidly. We may be exposed to increased inventory risks due to accumulating excessive inventory of our products or raw materials, parts and components for our products.

The industry in which we operate is characterized by constant changes. If we fail to innovate or to provide products that meet the expectations of our customers, we may be unable to attract new customers or retain existing customers, and as a result our business and results of operations may be adversely affected.

The industry in which we operate is characterized by constant changes, including rapid technological evolution, continual shifts in customer demand, frequent introductions of new products and solutions and constant emergence of new industry standards and practices. For example, algorithms used for mining a certain cryptocurrency may change from time to time, and our customers may demand ASIC chips with the latest algorithms that meet their requirements. Thus, our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner. We need to anticipate the emergence of new technologies and assess their market acceptance. We also need to invest significant resources in research and development in order to keep our products competitive in the market.

However, research and development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our research and development results, which could result in excessive research and development expenses or delays. Given the fast pace with which blockchain technologies have been and will continue to be developed, we may not be able to timely upgrade our technologies in an efficient and cost-effective manner, or at all. In addition, new developments in deep learning, computer vision, blockchain and cryptocurrency could render our products obsolete or unattractive. If we are unable to keep up with the technological developments and anticipate market trends, or if new technologies render our technologies or solutions obsolete, customers may no longer be attracted to our products. As a result, our business, results of operations and financial condition would be materially and adversely affected.

As our current ASIC chip products are mainly designed for cryptocurrency mining, any limitation on the usage and adaptation of cryptocurrency and any actual or perceived adverse development in the cryptocurrency market, which is rapidly and continuously evolving, can adversely affect our results of operations. As there is no wide consensus with respect to the value and application of cryptocurrency, any future development may continue to affect the price of cryptocurrency and as a result affect the demand for our current ASIC chip products. In addition, any event or rumor that generates negative publicity for the cryptocurrency industry and market, such as allegations that cryptocurrency is used for money laundering or other illicit activities, could result in harm to our reputation, which in turn may negatively affect our results of operations.

Decentralization, or the lack of control by a central authority, is a key reason that cryptocurrencies have attracted many committed users. However, the decentralized nature of cryptocurrency is subject to growing discussion and suspicion. Individuals, companies or groups, as well as cryptocurrency exchanges that own vast amounts of cryptocurrencies, can affect the market price of cryptocurrency. Furthermore, the production of computing equipment for blockchain applications and mining pool locations are becoming centralized. The suspicion about the decentralized nature of cryptocurrency may cause our customers to lose confidence in the prospects of the cryptocurrency industry. This in turn could adversely affect the market demand for our ASIC chip products and our business.

We are subject to risks associated with legal, political or other conditions or developments regarding holding, using or mining of cryptocurrencies and related products and services, which could negatively affect our business, financial condition, and results of operations.

End users of our products are based across the world. As such, changes in government policies, taxes, general economic and fiscal conditions, as well as political, diplomatic or social events, expose us to financial and business risks. In particular, changes in domestic or overseas policies and laws regarding holding, using and/or mining of cryptocurrencies and related products and services could result in an adverse effect on our business operations and results of operations. Moreover, if any domestic or international jurisdiction where we operate or sell our ASIC chip products prohibit or restricts cryptocurrency mining activities, we may face legal and other liabilities and may experience a material loss of revenue.

There are significant uncertainties regarding future regulations pertaining to the holding, using or mining of cryptocurrencies and related products and services, which may adversely affect our results of operations. While cryptocurrency has gradually gained more market acceptance and attention, it is anonymous and may be used for black market transactions, money laundering, tax evasion, terrorism or other illegal activities. As a result, governments may seek to regulate, restrict, control or ban the mining, use and holding of cryptocurrencies and related products and services. Our existing policies and procedures for the detection and prevention of money laundering and terrorism-funding activities through our business activities have only been adopted in recent years and may not completely eliminate instances in which we or our products may be used by other parties to engage in money laundering and other illegal or improper activities. We cannot assure you that there will not be a failure in detecting money laundering or other illegal or improper activities which may adversely affect our reputation, business, financial condition and results of operations.

With advances in technology, cryptocurrencies are likely to undergo significant changes in the future. It remains uncertain whether cryptocurrency will be able to cope with, or benefit from, those changes. In addition, as cryptocurrency mining employs sophisticated and high computing power devices that need to consume a lot of electricity to operate, future developments in the regulation of energy consumption, including possible restrictions on energy usage in the jurisdictions where we sell our products, may also affect our business operations and the demand for our current ASIC chip products. There has been public backlash surrounding the environmental impact of cryptocurrency mining, particularly the large consumption of electricity, and governments of various jurisdictions have responded.

For example, in the United States, certain local governments of the state of Washington have discussed measures to address environmental impact of cryptocurrency-related operations, such as the high electricity consumption of cryptocurrency mining activities. Pursuant to the Announcement on Prevention of Risks from Offering and Financing of Cryptocurrencies promulgated by seven PRC governmental authorities including the People's Bank of China, or the PBOC, on September 4, 2017, and Guarding against the Speculative Risks of Cryptocurrency Trading promulgated by the National Internet Finance Association of China, the China Banking Association; and the Payment & Clearing Association of China on May 18, 2021, illegal activities in offering and financing of cryptocurrencies, including initial coin offerings (ICOs), are forbidden in the PRC because such activities may be considered to constitute illegal offering of securities or illegal fundraising. Furthermore, financial institutions and payment institutions shall not engage in businesses related to cryptocurrency offering or financing transactions. Pursuant to the Circular of the Regulating Cryptocurrency Mining Activities promulgated by eleven PRC governmental authorities including the PBOC on September 3, 2021, which aims to dispose of the "hidden risks" in cryptocurrency mining as it pursues China's carbon-neutrality goals, and cryptocurrency mining is to be classified as a phased-out industry. This circular does not outlaw cryptocurrency mining completely, rather it orders local authorities to clamp down on illegal mining activities with plans to gradually phase out the industry. Investing in and constructing new mining projects will not be allowed and the existing mining projects will be given time to exit, and the entire industrial chain of the upstream and downstream of cryptocurrency mining activities will be tighten regulated. On September 15, 2021, ten PRC governmental authorities including the PBOC issued the Notice on Further Preventing and Disposing of Risks in Cryptocurrency Trading and Speculation. This notice reiterates that cryptocurrencies do not have the same legal status as legal currencies, and emphasizes that cryptocurrency-related businesses are illegal financing activities such as conducting exchanges between legal currencies and cryptocurrencies, exchanges among different cryptocurrencies, trading cryptocurrencies as a central counterparty, matching and pricing services for cryptocurrency transactions, token issuance and financing, and cryptocurrencies derivatives transactions. Cryptocurrency exchanges providing services to domestic residents are also illegal financial activities, and the relevant domestic staff and subjects providing marketing and promotion, payment and settlement, and technical support services for them will be investigated for knowingly participating in the cryptocurrency industry. On March 12, 2022, the National Development and Reform Commission of the PRC, or NDRC, published the Market Access Negative List (2022 Edition), which lists the virtual currency mining activities as the "backward production processes and equipment" under the eliminated item in the Catalogue for Guiding Industrial Restructuring. According to such list, market entities are prohibited from investing in eliminated items. The above regulations and policies may result in no customers in the PRC buying our products.

We derive a significant portion of our revenue from our ASIC chip products. If the market for our ASIC chip products ceases to exist or diminishes significantly, our business and results of operations would be materially harmed.

We derived a significant portion of our revenue from the sales of our ASIC chip products including ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. This is expected to continue in the foreseeable future. In 2021, 2022 and 2023, sales of our ASIC chip products accounted for 100.0%, 100.0% and 83.1% of our revenue, respectively. If the market for our ASIC chip products ceases to exist or diminishes significantly, we would experience a significant loss of sales, cancellation of orders, or loss of customers for our ASIC chip products. If we cannot maintain the scale and profitability of our ASIC chip products, our business, results of operations and ability to continue to grow will suffer. Furthermore, excess inventories, inventory markdowns, brand image deterioration and margin squeeze caused by declining economic returns for miners or pricing competition for our ASIC chip products could all have a material and adverse impact on our business, financial condition and results of operations.

We generate all of our revenue from sales to customers in the PRC. Any adverse development in the regulatory environment in the PRC could have a negative impact on our business, financial condition and results of operations.

We generate all of our revenue from customers in the PRC. If there is any adverse development in the regulatory environment concerning cryptocurrency mining in the PRC, our business, financial condition and results of operations will be materially and adversely affected. For example, on September 15, 2021, ten PRC governmental authorities including the PBOC issued the Notice on Further Preventing and Disposing of Risks in Cryptocurrency Trading and Speculation. This notice reiterates that cryptocurrencies do not have the same legal status as legal currencies, and emphasizes that cryptocurrency-related businesses are illegal financing activities such as conducting exchanges between legal currencies and cryptocurrencies, exchanges among different cryptocurrencies, trading cryptocurrencies as a central counterparty, matching and pricing services for cryptocurrency transactions, token issuance and financing, and cryptocurrencies derivatives transactions. There is no assurance that we will be able to effectively respond to any changes in PRC industrial policies as well as their implementation and interpretation. To the extent we are not able to generate sufficient sales from overseas markets to offset any decrease in demand from our PRC customers, our business and results of operations will be negatively impacted. In particular, if the PRC government completely bans the mining, even the upstream and downstream industry of the mining, possession and use of cryptocurrency, we will not be able to sell our products in the PRC, and we may not be able to generate sufficient sales overseas to make up for such loss of business in the PRC.

In addition, PRC government authorities have broad powers to adopt regulations and other requirements affecting or restricting our operations, including tax policies. Moreover, these relevant regulatory authorities possess significant powers to enforce applicable regulatory requirements in the event of our non-compliance, including the imposition of fines, sanctions or the revocation of licenses or permits to operate our business. We cannot assure you that we will not face administrative fines or penalties concerning our operations or our subsidiaries, which could have a material adverse impact on our results of operation.

Our ASIC chips depends mainly on supplies from a single third-party foundry, and any failure to obtain sufficient foundry capacity from this foundry would significantly delay the shipment of our products.

We do not own any IC fabrication facilities. A leading semiconductor foundry has been our major third-party foundry partner for our ASIC chips (the “Foundry Partner”). We sell our ASIC chips directly to our customers and, starting from the fourth quarter of 2023, began selling computing equipment for blockchain applications incorporating our ASIC chips. In 2021, 2022 and 2023, the value of the ICs we purchased from the Foundry Partner accounted for 45.3%, 49.6% and 66.0%, respectively, of our total procurement for the respective years. It is important for us to have a reliable relationship with the Foundry Partner and other future foundry service providers to ensure adequate product supply to respond to customer demand.

We cannot guarantee that the Foundry Partner will be able to meet our manufacturing requirements. The ability of the Foundry Partner to provide us with foundry services is limited by its technology migration, available capacity and existing obligations. If the Foundry Partner fails to succeed in its technology migration, it will not be able to deliver to us qualified ICs, which will significantly affect our technological advancement and shipment of ASIC chips. This could in turn result in lost sales and have a material adverse effect on our relationships with our customers and on our business and financial condition. In addition, we do not have a guaranteed level of production capacity from the Foundry Partner. We do not have long-term contracts with the Foundry Partner, and we source our supplies on a purchase order basis and prepay the purchase amount. As a result, we depend on the Foundry Partner to allocate to us a portion of its manufacturing capacity sufficient to meet our needs, to produce products of acceptable quality and at acceptable final test yields and to deliver those products to us on a timely basis and at acceptable prices. If the Foundry Partner raises its prices or is unable or unwilling to meet our required capacity for any reason, such as shortages or delays in the shipment of semiconductor equipment or raw materials required to manufacture our ICs, or if our business relationships with the Foundry Partner deteriorate, we may not be able to obtain the required capacity and would have to seek alternative foundries, which may not be available on commercially reasonable terms, or at all. Moreover, it is possible that other customers of the Foundry Partner that are larger and/or better financed than we are, or that have long-term contracts with it, may receive preferential treatment in terms of capacity allocation or pricing. In addition, if we do not accurately forecast our capacity needs, the Foundry Partner may not have available capacity to meet our immediate needs or we may be required to pay higher costs to fulfill those needs, either of which could materially and adversely affect our business, operating results or financial condition.

In particular, the production of our ASIC chips may require advanced IC fabrication technologies, and foundries other than the Foundry Partner might not have sufficient production capacity for such technologies, if at all, to meet our requirements. This may expose us to risks associated with engaging new foundries. For example, using foundries with which we have not established relationships could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation.

Other risks associated with our dependence on a single third-party foundry include limited control over delivery schedules and quality assurance, lack of capacity in periods of excess demand, unauthorized use of our intellectual property and limited ability to manage inventory and parts. In particular, although we have entered into confidentiality agreements with our Foundry Partner for the protection of our intellectual property, it may not protect our intellectual property with the same degree of care as we use to protect our intellectual property. See “—If we fail to adequately protect our intellectual property rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs.” If we fail to properly manage any of these risks, our business and results of operations may be materially and adversely affected.

Moreover, if the Foundry Partner suffers any damage to its facilities, suspends manufacturing operations, loses benefits under material agreements, experiences power outages or computer virus attacks, lacks sufficient capacity to manufacture our products, encounters financial difficulties, is unable to secure necessary raw materials from its suppliers or suffers any other disruption or reduction in efficiency, we may encounter supply delays or disruptions.

Mining difficulty for any reason would negatively affect the economic returns of cryptocurrency mining activities, which in turn would decrease the demand for and/or pricing of our products.

The difficulty of cryptocurrency mining, or the amount of computational resources required for a set amount of reward for recording a new block, directly affects the expected economic returns for cryptocurrency miners, which in turn affects the demand for our ASIC chip products. Cryptocurrency mining difficulty is a measure of how much computing power is required to record a new block and it is affected by the total amount of computing power in the cryptocurrency network. The cryptocurrency algorithm is designed so that one block is generated within a certain time period, no matter how much computing power is in the network. Thus, as more computing power joins the network, and assuming the rate of block creation does not change, the amount of computing power required to generate each block increases and hence the mining difficulty also increases. In other words, based on the current design of the cryptocurrency network, cryptocurrency mining difficulty would increase together with the total computing power available in the cryptocurrency network, which is in turn affected by the number of cryptocurrency mining machines in operation. As a result, strong growth in sales of our ASIC chip products can contribute to further growth in the total computing power in the network, thereby driving up the difficulty of cryptocurrency mining and resulting in downward pressure on the expected economic return of cryptocurrency mining and the demand for, and pricing of, our products.

Cryptocurrency exchanges and wallets, and to a lesser extent, the cryptocurrency network itself, may suffer from hacking and fraud risks, which may erode user confidence in cryptocurrency which would in turn decrease the demand for our ASIC chip products.

Cryptocurrency transactions are entirely digital and, as with any virtual system, are at risk from hackers, malware and operational glitches. Hackers can target cryptocurrency exchanges and cryptocurrency transactions so as to gain access to thousands of accounts and digital wallets where cryptocurrencies are stored. Cryptocurrency transactions and accounts are not insured by any type of government program and all cryptocurrency transactions are permanent because there is no third party or payment processor. Cryptocurrency has suffered from hacking and cyber-theft as such incidents have been reported by several cryptocurrency exchanges and miners, highlighting concerns about the security of cryptocurrency and therefore affecting its demand and price. Also, the price and exchange of cryptocurrency may be affected due to fraud risk. While cryptocurrency uses private key encryption to verify owners and register transactions, fraudsters and scammers may attempt to sell false cryptocurrencies. All of the above may adversely affect the operation of the cryptocurrency network which would erode user confidence in cryptocurrency, and which would negatively affect demand for our products.

Cryptocurrency mining activities are energy-intensive. The availability and cost of electricity will restrict the geographic locations of mining activities, thereby restricting the geographic locations of miners and sales of our products.

Cryptocurrency mining activities are inherently energy-intensive and electricity costs account for a significant portion of the overall mining costs. The availability and cost of electricity will restrict the geographic locations of mining activities. Any shortage of electricity supply or increase in electricity cost in a jurisdiction may negatively impact the viability and the expected economic return for cryptocurrency mining activities in that jurisdiction, which may in turn cause the sales of our ASIC chip products in that jurisdiction to decrease.

In addition, the significant consumption of electricity may have a negative environmental impact, including contribution to climate change, which may give rise to public opinion against allowing the use of electricity for cryptocurrency mining activities or government measures restricting or prohibiting the use of electricity for cryptocurrency mining activities. Any such development in the jurisdictions where we sell our ASIC chip products for blockchain applications could have a material and adverse effect on our business, financial condition and results of operations.

Failure at tape-out or failure to achieve the expected final test yields for our ASIC chips could negatively impact our operating results.

The tape-out process is a critical milestone in our business. A successful tape-out means all the stages in the design and verification process of our ASIC chips have been completed, and the product is ready to be sent for manufacturing. A tape-out will be either a success or a failure, and in the latter case design modifications will be needed. The tape-out process is very costly, and repeated failures can significantly increase our costs, lengthen our product development period and delay our product launch. While we have consistently achieved successful initial tape-outs in the initial batch historically, we cannot assure you that we will be able to continue to have a high tape-out success rate in the future.

Once tape-out is successful, the ASIC design is sent for manufacturing, and the final test yield is a measurement of the production success rate. The final test yield is a function of both of product design, which is developed by us, and process technology, which typically belongs to a third-party foundry, such as the Foundry Partner in our case. While we have historically achieved high final test yields, such as 99% between 2021 and 2023, we cannot assure you that we will be able to maintain such high final test yields in the future. Low final test yields can result from either a product design deficiency or a process technology failure or a combination of both. As such, we may not be able to identify problems causing low final test yields until our product designs go to the manufacturing stage, which may substantially increase our per unit costs and delay the launch of new products.

For example, if the Foundry Partner experiences manufacturing inefficiencies or encounters disruptions, errors or difficulties during production, we may fail to achieve acceptable final test yields or experience product delivery delays. We cannot be certain that the Foundry Partner will be able to develop, obtain or successfully implement process technologies needed to manufacture future generations of our products on a timely basis. Moreover, during the periods in which foundries are implementing new process technologies, their manufacturing facilities may not be fully productive. A substantial delay in the technology transitions to smaller geometry process technologies could have a material and adverse effect on us, particularly if our competitors transition to such technologies before us.

In addition, resolution of yield problems requires cooperation among us, the Foundry Partner and package and test partners. We cannot assure you that the cooperation will be successful and that any yield problems can be fixed.

Any failure of our products to meet the necessary quality standards could adversely affect our reputation, business and results of operation.

The quality of our products is critical to the success of our business and depends significantly on the effectiveness of our and of our manufacturing service providers' quality control systems. In our efforts to quickly meet new market trends and demand and to adopt new technologies, our products may not have adequate time to go through our normal rigorous testing procedures and final inspection, which could result in instances where our products cannot reach the required performance standard, or our products are found to be defective. These instances could result in our customers suffering losses. Defects detected before product delivery to our customers may result in additional costs for remediation and rework. Defects detected after the delivery and installation of our products may result in our incurring further costs relating to inspection, installation, remediation or product return, which may result in damages to our reputation, loss of customers, government fines and disputes and/or litigation.

In addition, we outsource a portion of our product manufacturing process to certain production partners, and in those instances we require these production partners to purchase parts and components from other third-party suppliers. Although we carry out quality inspections for the manufacturing process and the parts and components purchased by our production partners, we cannot assure you that we will always be able to detect defects in the manufacturing process or the parts and components purchased. Any defect in our third-party manufacturing process or parts and components purchased by them may lead to defects in our finished products, which may in turn increase our costs as well as damage our reputation and market share. We may not be able to procure contractual or other indemnities from the suppliers of the defective parts and components adequately, or at all. We may be subject to product liability claims and litigation for compensation which could result in substantial and unexpected expenditures and could materially and adversely affect our cash flow and operating results.

We may be unable to make the substantial investments in research and development that are required to remain competitive in our business.

Advances in cryptocurrency mining technology and the semiconductor industry have led to increased demand for ICs of higher speed and power efficiency for solving computational problems of increasing complexity. In 2021, 2022 and 2023, we incurred research and development expenses of RMB53.2 million, RMB48.4 million and RMB42.3 million (US\$6.0 million), respectively. We are committed to investing in new product development in order to stay competitive in our markets. We are driven by market demand, and we intend to continue to broaden and enhance our product portfolio in order to deliver the most effective solutions to our customers. Nevertheless, if we are unable to generate enough revenue or raise enough capital to make adequate research and development investments going forward, our product development and relevant research and development initiatives may be restricted or delayed, or we may not be able to keep pace with the latest market trends and satisfy our customers' needs, which could materially and adversely affect our results of operations. Furthermore, our research and development expenditures may not yield the expected results that enable us to roll out new products, which in turn will harm our prospects and results of operations.

Failure to maintain inventory levels in line with the approximate level of demand for our products could cause us to lose sales, expose us to increased inventory risks and subject us to increases in holding costs, risk of inventory obsolescence, increases in markdown allowances and write-offs, any of which could have a material adverse effect on our business, financial condition and results of operations.

To operate our business successfully and meet our customers' demands and expectations, we must maintain a certain level of finished goods inventory to ensure immediate delivery when required. However, forecasts are inherently uncertain. If our forecasted demand is lower than actual demand, we may not be able to maintain an adequate inventory level of our finished goods or produce our products in a timely manner, and we may lose sales and market share to our competitors. On the other hand, we may also be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials, parts and components for our products. Excess inventory levels may lead to increases in inventory holding costs, risks of inventory obsolescence and provisions for write-downs. The carrying value of our inventories were RMB66.8 million, RMB77.8 million and RMB41.8 million (US\$5.9 million) as of December 31, 2021, 2022 and 2023, respectively.

The average selling prices of our products may decrease from time to time due to technological advancement and we may not be able to pass such decreases onto our suppliers, which may in turn adversely affect our profitability.

The IC design industry is characterized by rapid launches of new products, continuous technological advancements and changing market trends and customer preferences, all of which have generally translated to a shorter life cycle and a gradual decrease in the average selling prices of products over time. Because we compete in the environment of rapidly-evolving technology advancement and market trends and developments of the IC design industry, there are no assurances that we will be able to pass on any decrease in average selling prices of our products to our suppliers. In the event that average selling prices of our products unusually or significantly decrease and such decreases cannot be offset by a corresponding decrease in the prices of the principal components of our products, our gross profit margins may be materially and adversely affected, which in turn, may adversely affect our profitability.

If we are unable to effectively execute our growth strategies, maintain our rapid growth trends and manage risks associated with expanding the scale of our operations, our ability to grow our business and establish our overseas market may be negatively affected.

For the years ended December 31, 2021, 2022 and 2023, our revenue amounted to RMB631.8 million, RMB473.7 million and RMB82.2 million (US\$11.6 million), respectively. We may not be able to halt the decrease in revenue and achieve future revenue growth if we are not able to successfully execute our product development and diversification, geographic expansion and other growth plans. In addition, our rapid growth has placed and will continue to place significant demands on our management and our administrative, operational, research and development and financial resources.

To accomplish our growth strategies and manage the future growth of our operations, we will be required to enhance our research and development capabilities, improve our operational and financial systems and internal controls, and expand, train and manage our growing employee base. Furthermore, we need to maintain and expand our relationships with our customers, suppliers, research institutions, third-party manufacturers and other third parties. Moreover, as we introduce new products or enter new markets, we may face new market, technological, operational and regulatory risks and challenges with which we are unfamiliar.

Our current and planned operations, personnel, systems, internal procedures and controls may not be adequate to support our future growth and expansion. The success of our growth strategies depends on a number of external factors, such as the growth of the semiconductor market and the demand for cryptocurrency, the level of competition we face and evolving customer behavior and preferences. If we are unable to execute our growth strategies or manage our growth effectively, we may not be able to capture market opportunities or respond to competitive pressures, which may materially and adversely affect our business prospects and results of operations.

As part of our growth strategy, we plan to expand our sales outside of the PRC. As we continue to grow our business and expand our operations globally, we will continue to sell our products into new jurisdictions in which we have limited or no experience and in which our brands may be less recognized. The expansion exposes us to a number of risks, including:

- difficulty in managing multinational operations;
- we may face competitors in the overseas markets who are more dominant and have stronger ties with customers and greater financial and other resources;
- fluctuations in currency exchange rates;
- challenges in providing customer services and support in these markets;
- challenges in managing our international sales channels effectively;
- unexpected transportation delays or interruptions or increases in international transportation costs;
- difficulties in and costs of exporting products overseas while complying with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;

- difficulty in ensuring that our customers comply with the sanctions imposed by the Office of Foreign Assets Control of the U.S., or OFAC, on various foreign states, organizations and individuals;
- inability to obtain, maintain or enforce intellectual property rights;
- inability to effectively enforce contractual or legal rights or intellectual property rights in certain jurisdictions under which we operate;
- changes in a specific country or region's political or economic conditions or policies;
- unanticipated changes in prevailing economic conditions and regulatory requirements; and
- governmental policies favoring domestic companies in certain foreign markets or trade barriers including export requirements, tariffs, taxes and other restrictions and charges. In particular, there have been concerns over the exit of the United Kingdom from the European Union, a worldwide trend in favor of nationalism and protectionist trade policy and the ongoing trade dispute between the United States and China as well as other potential international trade disputes, all of which could cause turbulence in international markets. These government policies or trade barriers could increase the prices of our products and make us less competitive in such countries.

If we are unable to effectively manage these risks, our ability to expand our business abroad will be impaired, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our limited operating history and rapid revenue growth may make it difficult for us to forecast our customer demand and our business development, or to assess the seasonality and volatility in our business.

As the markets for ASIC chip products are relatively young and still developing, we cannot forecast longer-term demand or order patterns for our products. We commenced our operation in December 2017. Because of our limited operating history and historical data, as well as the limited visibility into future demand trends for our products, we may not be able to accurately forecast our future revenue and budget our operating expenses accordingly. As most of our expenses are fixed in the short-term or incurred in advance of anticipated total revenue, we may not be able to adjust our expenses in a timely manner in order to offset any shortfall in revenue.

We have experienced fluctuations in orders during our limited operating history, and we expect such volatility to occur in the future. For example, foundries need other electronic components to manufacture our ASIC chips. These electronic components are also used in the manufacture of traditional consumer electronic products. As a result, to the extent there are cycles and fluctuations in the consumer electronics industry, they may have an impact on the supply of our raw materials. If we or our foundry partner are unable to secure raw materials due to these factors, or if any of our third-party manufacturing service providers are unable to increase production of new or existing products to meet any increases in demand, our total revenue would be adversely affected and our reputation with our customers may be damaged. In addition, our business highly correlate with market prices of cryptocurrencies as our ASIC chip products are primarily used in cryptocurrency mining activities. The market prices of cryptocurrencies are highly volatile and exhibit no material season-related pattern of fluctuations.

We rely on a limited number of third parties to package and test our products.

In addition to IC fabrication, we rely on a limited number of production partners, including the ASE Group and ACCESS for IC packaging and testing services. We also maintain collaborative relationships with several semiconductor component manufacturers. Reliance on these third parties for the testing and packaging of our ASIC chips presents significant risks to us, including the following:

- limited control over delivery schedules, quality assurance, final test yields and production costs;
- potential failure to obtain, or delay in obtaining, key process technologies;
- failure by us to find an alternative supplier;
- capacity shortages during periods of high demand;
- shortages of materials;
- unauthorized use of our intellectual property;
- limited warranties on ICs or products supplied to us; and
- potential increases in prices.

The ability and willingness of our production partners to adequately and timely perform is largely beyond our control. If one or more of these production partners fail to perform its obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. If any of our production partners fail to deliver quality products and components to us on time and at reasonable prices, we could face difficulties in fulfilling our customers' orders, our total revenue could decline and our business, financial condition and results of operations would be adversely affected.

Our prepayments to suppliers may subject us to counterparty risk associated with such suppliers and negatively affect our liquidity and cash position.

We may incur net cash outflows at an early stage of our production because we are required to prepay the Foundry Partner before the service is provided in order to secure the foundry service provider's production capacity. As of December 31, 2021, 2022 and 2023, the outstanding balance of prepayments we made to our foundry service providers amounted to approximately RMB22.2 million, RMB13.9 million and RMB32.8 million (US\$4.6 million), respectively. The amount of our prepayments can significantly increase at the beginning of our launch of advanced products in the future. We are subject to counterparty risk exposure to our suppliers. Any failure by our suppliers to perform their contractual obligations in a timely manner and/or in accordance with our requested quality may result in us not being able to fulfill customers' orders accordingly. In such event, we may not be able to receive back the prepayments in a timely manner or in full, or at all, notwithstanding that our suppliers are obligated to return such prepayments upon meeting certain conditions. Furthermore, such prepayments also put cash pressure on us and if the cash outflows for the prepayments significantly exceed the cash inflows during any period, our future liquidity and cash position will be adversely affected.

We had a concentration of credit risk because we derived our revenue from a limited number of customers

We sell our ASIC chip products to distributors. Our customer base consists of distributors located in the PRC. For the year ended December 31, 2021, we had 24 customers with three contributing more than 10% of our revenue each, accounting for 24.6%, 22.9% and 17.8%, respectively, of our revenue. For the year ended December 31, 2022, we had seven customers with three contributing more than 10% of our total revenue each, accounting for 47.3%, 33.3% and 17.4%, respectively. For the year ended December 31, 2023, we had seven customers with two contributing more than 10% of our revenue each, accounting for 56.2% and 41.9%, respectively, of our revenue. Generally, we either require prepayment in full or offer alternate payment plans for customers to prepay a certain percentage with the remainder to be settled after delivery of our products. We cannot assure you that we will not see concentration of accounts receivable from a small number of customers in the future. In such case, if any of these customers defaults on its payment obligations to us, we will not be able to recover the related accounts receivable, and our business, financial condition and results of operations may be materially and adversely affected.

Power shortages, labor disputes and other factors may result in constraints on our production activities.

The production of our ASIC chip products is dependent on adequate supplies of power and labor. If our production partners experience power shortages or labor disputes for any reason, it would likely result in disruptions to the production activities we outsource to them. For example, in October 2021, one of our production partners in Guangdong province had to reduce the number of workdays in a week due to government-mandated power outages. There can be no assurance that our operations will not be affected by power shortages, labor disputes or other factors in the future, thereby causing material production disruptions and delays in our delivery schedule. In such event, our business, results of operations and financial condition could be materially and adversely affected.

We face intense competition and our competitors may employ aggressive pricing strategies, which can lead to a price reduction of our products and material adverse effect on our results of operations.

We operate in highly competitive industries for our ASIC chip products, and we may continue to look to enter into markets with very competitive landscapes. Our competitors include many well-known domestic and international players, and we face competitors that are larger than us and have advantages over us in terms of economies of scale and financial and other resources. We expect that competition in our markets will continue to be intense, as we compete not only with existing players that have been focusing on the design of ASIC chips and assembly of computing equipment for blockchain applications, but also new entrants that include well-established players in the semiconductor industry, or players that have not been predisposed to this industry in the past. Some of these competitors may also have stronger brand names, greater access to capital, longer histories, longer relationships with their suppliers or customers and more resources than we do. Furthermore, these competitors may be able to adapt to changes in the industry more promptly and efficiently. Intense competition from existing and potential competitors could result in material price reductions in the products we sell or a decrease in our market share. Aggressive pricing strategies by our competitors and an abundant supply of ASIC chips and/or computing equipment for blockchain application similar to ours in the market may cause us to reduce the prices of our products and also negatively affect the demand for our products or harm our profitability. If we fail to compete effectively and efficiently or fail to adapt to changes in the competitive landscape, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to adequately protect our intellectual property rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs.

We develop and protect our intellectual property portfolio by registering our patents, copyrights, IC layout design rights, utility models, trade secret laws and confidentiality agreements, non-compete agreements and nondisclosure agreement with our employees and others to protect our proprietary rights. However, we cannot assure you that the strategies and steps we are taking are sufficient to protect our intellectual property rights or that, notwithstanding legal protection, others do not or will not infringe or misappropriate our intellectual property rights. If we fail to adequately protect our intellectual property rights, or if changes in laws diminish or remove the current legal protections available to them, the competitiveness of our products may be eroded, and our business could suffer. As of the date of this annual report, we have registered 28 trademarks (including two in mainland China and 26 outside mainland China) and a total of ten patents in the PRC, including six inventions and four utility model patents. As of the same date, we have registered ten software copyrights and 25 IC layout-design rights in the PRC. The rights granted to us under our patents, IC layout-design rights and copyrights, including prospective rights sought in our pending patent applications, may not be meaningful or provide us with any commercial advantage. In addition, they could be opposed, contested, circumvented or designed around by our competitors or be declared invalid or unenforceable in judicial or administrative proceedings. Any failure of our patents, copyrights and IC layout-design rights to adequately protect our technologies may allow our competitors to offer similar products or technologies. We may not be able to protect our intellectual property rights in some countries where our products may be sold in the future. Even if intellectual property rights are granted outside of the PRC, effective enforcement in those countries may not be available to us, primarily due to the relatively weak legal regime protecting intellectual property rights in those countries and the difficulties to defend and enforce such rights. Accordingly, we may not be able to effectively protect our intellectual property rights in those countries. Many companies have encountered substantial intellectual property infringement in the PRC as well as in many of the countries where we may sell our products in the future.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may already have occurred or may occur in the future without our knowledge. Any failure by us to effectively protect our intellectual property could reduce the value of our technologies and impair our ability to compete. We may in the future need to initiate infringement claims or litigation. Litigation can be expensive and time-consuming and may divert the efforts of our technical staff and managerial personnel, which could result in lower total revenue and higher expenses, whether or not such litigation results in a determination favorable to us.

We may face intellectual property infringement claims or other related disputes, which could be time-consuming, costly to defend or settle and result in the loss of significant rights and lower sales.

As is typical in the semiconductor industry, we may be subject to infringement claims from time to time or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties that may cover some of our technology, products and services. The semiconductor industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce these rights. Patent litigation has increased in recent years owing to increased assertions made by intellectual property licensing entities and to increasing competition and overlap of product functionality in our markets. Additionally, we have in the past entered into and may continue in the future continue to enter into licensing agreements with third parties for the use of their proprietary technologies, primarily software development tools, in the development of our products. As with any business relationship, we may face disputes and lawsuits related to those intellectual property licensing agreements. As our operations continue to grow in size and scale, the likelihood of us becoming involved in intellectual property related lawsuits and disputes to protect or defend our intellectual property rights and the use of third-party intellectual property rights will likely increase.

In addition, it is extremely difficult for us to monitor all of the patent applications that have been filed in the PRC, the United States or in other countries or regions and to determine whether, if such pending patents are granted, such patents would have a material and adverse effect on our business if our product and service offering were to infringe upon them.

Third parties may file claims against us or our customers alleging that our products, processes, or technologies infringe their patents or intellectual property rights. Regardless of their merits or resolutions, such claims would likely be costly to defend or settle and could divert the efforts and attention of our management and technical personnel. In addition, some of our customer agreements in the future may require us to indemnify and defend our customers from third-party infringement claims and to pay damages in the case of adverse rulings. As such, claims of this sort also could harm our relationships with our customers and may deter future customers from doing business with us. We do not know whether we could prevail in any such proceeding given the complex technical issues and inherent uncertainties involved in intellectual property litigation. If any pending or future proceedings result in an adverse outcome, we could be required to:

- cease the manufacturing, use or sale of the infringing products, processes or technologies;
- stop shipment to certain geographic areas;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing processes, technologies or products;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;

- cross-license our technology to a competitor in order to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our customers to discontinue their use of or replace infringing products sold to them with non-infringing products.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective system of internal controls, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected, and investor confidence and the market price of the ADSs may be adversely affected.

In connection with the audit of our consolidated financial statements as of and for the years ended December 31, 2021, we and our independent registered public accounting firm identified two material weaknesses in our internal controls. In accordance with the standards of the PCAOB, a “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our Company’s annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The two material weaknesses identified relate to the following: (a) during its audit, our independent registered public accounting firm noted that our internal control over financial reporting was not effective due to (i) inadequate segregation of duties and effective risk assessment; (ii) lack of personnel adequately trained in U.S. GAAP; and (iii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC guidelines for reporting and compliance; and (b) we do not have control in place to ensure that all board meetings are documented in the meeting minutes.

We have begun and will continue to implement measures to address the material weaknesses. For details of these remedial measures, see “Item 15. Controls and Procedures—Remediation of the Material Weakness in Internal Control.” However, the implementation of those measures may not fully remediate these material weaknesses in a timely manner. In the future, we may determine that we have additional material weakness, or our independent registered public accounting firm may disagree with our management’s assessment of the effectiveness of our internal controls. Our failure to correct these material weakness or our failure to discover and address any other material weakness could result in inaccuracies in our financial statements and impair our ability to comply with the applicable financial reporting requirements and related regulatory filings on a timely basis. Moreover, ineffective internal control over financial reporting could significantly hinder our ability to prevent fraud.

The loss of any member of our senior management team, or our failure to attract, train and retain qualified personnel, especially our research and development personnel, could impair our ability to grow our business and effectively execute our business strategy.

Since our inception, the growth and expansion of our business operations have been dependent upon the business strategies and foresight of our senior management. Our future success depends, in large part, on the continued contributions of our senior management team, specifically our founders Mr. Qiang Ding and Mr. Chaohua Sheng.

In addition, our future success depends on our ability to retain, attract and incentivize qualified personnel, including our management, sales, marketing, finance and especially research and development personnel. As the driver of our technological and product innovations, our research and development personnel represent a very significant asset of ours. As the technology in the semiconductor industry is advancing at a quick pace, there is an increasing need for skilled engineers. Many companies across the world are struggling to find suitable candidates for their research and development positions. The process of hiring employees with the combination of skills and characteristics required to implement our strategy can be extremely competitive and time-consuming. We cannot assure you that we will be able to attract adequate personnel as we continue to pursue our business strategies.

Moreover, we cannot assure you that we will be able to retain key existing employees. The loss of any of our founders, senior management or research and development team members could harm our ability to implement our business strategies and respond to the rapidly changing market conditions in which we operate, or could result in other operating risks. The loss of one or more of our key employees, especially our key research and development personnel which includes our founders, or our inability to retain, attract and motivate qualified research and development personnel, could have a material adverse effect on our business, financial condition and results of operations.

Our research and development activities may not result in the successful development of new products.

We are committed to various research and development activities for the growth of our business. These activities and efforts include launch of new products through the development of our technology platform to diversify our product offerings and broaden the applications of our proprietary technologies.

There is no assurance that any research and development activities conducted by us will be completed within the anticipated time frame or that the costs of such research and development activities can be fully or partially recovered. We cannot assure you that we can ultimately commercially produce and market new products. Furthermore, if our research and development activities do not result in the successful development of new products, our reputation, business prospects, financial conditions and results of operations could be materially and adversely affected.

Our corporate actions are significantly influenced by our co-founders, who have the ability to exert significant influence over important corporate matters that require approval of shareholders while their interests may differ from those of the other shareholders. This may deprive you of the opportunity to receive a premium for your ADSs and materially reduce the value of your investment.

Our memorandum and articles of association provide that in respect of all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 10 votes at general meetings of our shareholders. As of February 29, 2024, our co-founders Mr. Qiang Ding and Mr. Chaohua Sheng, will beneficially own 100% of our issued and outstanding Class B ordinary shares, representing approximately 92.0% of the aggregate voting power of our issued and outstanding share capital. The interests of our co-founders may differ from the interests of other shareholders. This concentration of ownership and the protective provisions in our amended and restated memorandum and articles of association, which had become effective after our initial public offering, may, among other things, discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of the ADSs. We may not be able to enter into other transactions that could be beneficial to us without the consent of our co-founders. As a result of the foregoing, the value of your investment could be materially reduced.

We will be a “controlled company” within the meaning of the rules of Nasdaq and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the rules of Nasdaq because Mr. Qiang Ding, one of our co-founders, the chairman of the board of directors and chief executive officer, will hold more than 50% of the aggregate voting power of our total issued and outstanding share capital. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will rely, on certain exemptions from corporate governance rules, including exemptions from the rule that a nomination and corporate governance committee composed entirely of independent directors and a compensation committee composed entirely of independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

We may engage in acquisitions or strategic alliances that could disrupt our business, result in increased expenses, reduce our financial resources and cause dilution to our shareholders. We cannot assure you that such acquisitions or strategic alliances may be successfully implemented.

Although we have not engaged in acquisitions or strategic alliances in the past, we may look for potential acquisitions or strategic alliances in the future to expand our business. However, we may not be able to find suitable acquisition candidates, complete acquisitions on favorable terms, if at all, or integrate any acquired business, products or technologies into our operations. If we do complete acquisitions, they may be viewed negatively by customers or investors and they may not enable us to strengthen our competitive position or achieve our goals. In addition, any acquisitions that we make could lead to difficulties in integrating personnel, technologies and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Moreover, acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities and increase our expenses. Future acquisitions may reduce our cash available for operations and other uses, and could result in increases in amortization expenses related to identifiable intangible assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt. We cannot predict the number, timing or size of future acquisitions, or the effect that any such acquisitions might have on our operating results.

Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability.

We receive, process, store and transmit, often electronically, the data of our customers and others, much of which is confidential. Unauthorized access to our computer systems or stored data could result in the theft, including cyber-theft, or improper disclosure of confidential information, and the deletion or modification of records could cause interruptions in our operations. These cyber-security risks increase when we transmit information from one location to another, including over the internet or other electronic networks. Our facilities, systems and procedures, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, software viruses, misplaced or lost data, programming or human errors or other similar events which may disrupt our delivery of services or expose the confidential information of our customers and others. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our customers or others, whether by us or a third party, could (i) subject us to civil and criminal penalties, (ii) have a negative impact on our reputation, or (iii) expose us to liability to our customers, third parties or government authorities. We are not aware of such breaches to date. Any of these developments could have a material adverse effect on our business, financial condition and results of operations. For more information, see “Item 16K. Cybersecurity.”

Preferential tax treatment currently available to us in the PRC could be discontinued or reduced.

As a foreign-invested enterprise in the PRC in IC design industry, according to Announcement on Corporate Income Tax Policies for Promoting High-quality Development of the Integrated Circuit and Software Industries issued by the Ministry of Finance and other relevant authorities on December 11, 2020, our PRC subsidiary Shanghai Intchains qualifies for preferential tax treatment which allows it to enjoy a 5-year tax holiday which exempts it from paying EIT for the first two years and allows it to pay EIT at half of the statutory rate for the following three years beginning from 2021 after utilizing all prior years’ tax losses. Shanghai Intchains had fully utilized its tax losses in 2021. When the benefits we currently receive under this preferential tax treatment expire in the future and if we do not receive any new and comparable preferential tax treatment, our financial condition and results of operations may be materially and adversely affected. In addition, we received tax refund of VAT, EIT, personal income tax and stamp duty from local government at certain percentages according to agreements entered annually since 2019. We cannot assure you that we will continue to qualify for these tax abatements or refunds in the future, or that the policies providing for them will remain in effect.

Shanghai Intchains was certified as a High and New Technology Enterprise in Shanghai, and therefore has been entitled to an EIT rate of 15.0% for a period of three years in 2019, which was renewed in 2022 for another three years. Under the PRC Enterprise Income Tax Law, or the EIT Law, and its relevant regulations, PRC companies are typically subject to an income tax rate of 25% under the EIT Law. Meanwhile, we shall, in accordance with the requirements of the tax authority and other relevant authorities, retain and submit our financial statements together with details of our research and development activities and other technological innovation activities for future reference to enjoy the preferential tax treatment. As advised by Jingtian & Gongcheng, our PRC legal adviser, if we fail to provide materials retained for future reference, we will not be entitled to enjoy the preferential tax treatment, as well as other benefits conferred under the accreditations.

We require various approvals, licenses, permits and certifications to operate our business. Any failure to obtain or renew any of these approvals, licenses, permits or certifications could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations in the jurisdictions in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our business. Complying with such laws and regulations may require substantial expense, and any non-compliance may expose us to liability. In the event of non-compliance, we may have to incur significant expenses and divert substantial management time to rectify any such non-compliance. In the future, if we fail to obtain all the necessary approvals, licenses, permits and certifications, we may be subject to fines or the suspension of operations at the production facilities and research and development facilities that do not have all the requisite approvals, licenses, permits and certifications, which could materially and adversely affect our business and results of operations. We may also experience adverse publicity arising from non-compliance with government regulations, which would negatively impact our reputation.

We cannot assure you that we will be able to fulfill all the conditions necessary to obtain and maintain all required government approvals, or that relevant government officials will always, if ever, exercise their discretion in our favor, or that we will be able to comply with any new laws, regulations or policies. There may also be delays on the part of government authorities in reviewing our applications and granting approvals, whether due to the lack of human resources or the imposition of new rules, regulations, government policies or their implementation, interpretation and enforcement. If we are unable to obtain, or if we experience material delays in obtaining, necessary government approvals, our operations may be substantially disrupted, which could materially and adversely affect our business, financial condition and results of operations.

We may be involved in legal and other disputes from time to time arising out of our operations, including disputes with our raw material or component suppliers, production partners, customers or employees.

We may from time to time be involved in disputes with various parties arising out of our operations, including raw material or electronic components suppliers, production partners, customers or employees. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management’s attention from our core business activities. In addition, we may encounter compliance issues with regulatory bodies in the course of our operations, in respect of which we may face administrative proceedings or unfavorable decisions that may result in liabilities and cause delays to our production and delivery. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition, results of operations or cash flows.

Our insurance coverage is limited and may not be adequate to cover potential losses and liabilities. A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition.

We do not maintain any insurance covering our properties, equipment, inventory or employees, and we do not carry any business interruption or product liability insurance or any third-party liability insurance to cover claims in respect of personal injuries or any damages arising from accidents on our properties or in relation to our operations. The occurrence of certain incidents including severe weather, earthquake, fire, war, power outages, flooding and the consequences resulting from them may not be covered by our insurance policies adequately, or at all. If we were subject to substantial liabilities we could incur costs and losses that could materially and adversely affect our results of operations and financial condition.

We may need additional capital but may not be able to obtain it in a timely manner and on favorable terms or at all.

Our operations may require additional capital or financing from time to time in order to achieve further growth. We may require additional cash resources due to the future growth and development of our business. Our future capital requirements may be substantial as we seek to expand our operations and diversify our product offering. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities.

Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows and the liquidity of international capital and lending markets. In addition, our loan agreements may contain financial covenants that restrict our ability to incur additional indebtedness or to distribute dividends. Any indebtedness that we may incur in the future may also contain operating and financial covenants that could further restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. A large amount of bank borrowings and other debt may result in a significant increase in interest expense while at the same time exposing us to increased interest rate risks. Equity financing could result in dilution to our shareholders, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our ordinary shares or ADSs. Any failure to raise needed funds on terms favorable to us, or at all, could severely restrict our liquidity as well as have a material adverse effect on our business, financial condition and results of operations.

We face risks related to natural disasters, health epidemics or pandemics, and other outbreaks, most notably those related to the outbreak of COVID-19.

Our business could be adversely affected by the effects of epidemics or pandemics, including COVID-19, avian influenza, severe acute respiratory syndrome (SARS), influenza A (H1N1), ebola or any other epidemic or pandemic. Any such occurrences could cause severe disruption to our daily operations, including our fulfillment infrastructure and our customer service centers, and may even require a temporary closure of our facilities.

Following the outbreak of COVID-19 in early, 2020, many businesses and social activities in China and other countries and regions have been severely disrupted starting in the first quarter of 2020, including those of our suppliers, customers and employees. Although mainland China ended COVID-19 pandemic control measures in December 2022, there is no assurance that COVID-19 or another pandemic will not emerge in the future, which may cause market panics and materially and negatively affect the global financial markets. Such disruption and the potential slowdown of the world's economy could have a material adverse effect on our results of operations and financial condition. We and our customers experienced and may continue to experience significant business disruptions and suspension of operations due to quarantine measures to contain the spread of the pandemic, which may cause shortage in the supply of raw materials, increase the likelihood of default from our customers and delay our product delivery. A pandemic could also lead to great volatility in the cryptocurrency price, which may negatively affect the demand for our ASIC chips both in terms of the price and the quantity. Our business operations were disrupted, and may continue to be disrupted, if any of our employees are suspected of having contracted any contagious disease or condition, since it could require our employees to be quarantined or our offices to be closed down and disinfected. All of these had, and may continue to, have a material adverse effect on our results of operations and financial condition.

The occurrence of any of the foregoing or other natural or man-made disasters could cause damage or disruption to us, our employees, operations, markets and customers, which could result in significant delays in deliveries or substantial shortages of our products and could adversely affect our business, financial condition, results of operations or prospects.

Any global systemic economic and financial crisis could negatively affect our business, results of operations, and financial condition.

Any prolonged slowdown in the Chinese or global economy may have a negative impact on our business, results of operations and financial condition. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011 and the slowdown of the PRC's economic growth since 2012, which may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and the PRC. There have also been concerns over unrest several geographic areas in the world, which have resulted in volatility in financial and other markets. There have also been concerns over the United Kingdom leaving the European Union as well as the significant potential changes to United States trade policies, treaties and tariffs, including trade policies and tariffs regarding the PRC.

There have also been concerns about the economic effect of the tensions in the relationship between the PRC and surrounding Asian countries. There could be in the future a number of domino effects from such turmoil on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies; and counterparty failures negatively impacting our operations. Any systemic economic or financial crisis could cause revenue for the semiconductor industry as a whole to decline dramatically and could materially and adversely affect our results of operations.

If counterfeit products are sold under our brand names and trademarks, our reputation and financial results could be materially and adversely affected.

Third-party merchants and dealers are separately responsible for sourcing counterfeit products that are sold under our brand names and trademarks. Counterfeit products may be defective or inferior in quality as compared to authentic products. If our customers are not satisfied by counterfeit products sold under our brand names and trademarks, we may be subject to reputational damage. We believe our brand and reputation are important to our success and our competitive position. The discovery of counterfeit products sold under our brand names and trademarks may severely damage our reputation and cause customers to refrain from making future purchases from us, which would materially and adversely affect our business operations and financial results.

If we are unable to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

Maintaining and enhancing the recognition, image and acceptance of our brand are important to our ability to differentiate our products from and to compete effectively with our peers. Our brand image, however, could be jeopardized if we fail to maintain high product quality, pioneer and keep pace with evolving technology trends, or timely fulfill the orders for our products. If we fail to promote our brand or to maintain or enhance our brand recognition and awareness among our customers, or if we are subject to events or negative allegations affecting our brand image or the publicly perceived position of our brand, our business, operating results and financial condition could be adversely affected.

Adverse developments affecting the financial services industry could adversely affect our current and projected business operations and our financial condition and results of operations.

Adverse developments that affect financial institutions, such as events involving liquidity that are rumored or actual, have in the past and may in the future lead to bank failures and market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation ("FDIC") as receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp were each swept into receivership. The Department of the Treasury, the Federal Reserve and the FDIC released a statement that indicated that all depositors of SVB and Signature Bank would have access to all of their funds, including funds held in uninsured deposit accounts, after only one business day of closure.

We have not experienced any adverse impact to our liquidity or to our current and projected business operations, financial condition or results of operations. However, uncertainty remains over liquidity concerns in the broader financial services industry, and our business, our business partners, or industry as a whole may be adversely impacted in ways that we cannot predict at this time.

Although we assess our banking relationships as we believe necessary or appropriate, our access to cash in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impaired by factors that affect the financial institutions with which we have banking relationships, and in turn, us. These factors could include, among others, events such as liquidity constraints or failures, the ability to perform obligations under various types of financial, credit or liquidity agreements or arrangements, disruptions or instability in the financial services industry or financial markets, or concerns or negative expectations about the prospects for companies in the financial services industry. These factors could also include factors involving financial markets or the financial services industry generally. The results of events or concerns that involve one or more of these factors could include a variety of material and adverse impacts on our current and projected business operations and our financial condition and results of operations. These could include, but may not be limited to, delayed access to deposits or other financial assets or the uninsured loss of deposits or other financial assets; or termination of cash management arrangements and/or delays in accessing or actual loss of funds subject to cash management arrangements.

In addition, widespread investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or fulfill our other obligations, result in breaches of our financial and/or contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our current and/or projected business operations and financial condition and results of operations.

In addition, our business partners could be adversely affected by any of the liquidity or other risks that are described above as factors, which in turn, could have a material adverse effect on our current and/or projected business operations and results of operations and financial condition. Any business partner bankruptcy or insolvency, or any breach or default by a business partner, or the loss of any significant business partner relationships, could result in material adverse impacts on our current and/or projected business operations and financial condition.

Risks Relating to Doing Business in the PRC

Changes in the political and economic policies of the Chinese government or in relations between China and the United States may materially and adversely affect our business, financial condition, results of operations and the market price of our ADSs.

Due to our extensive operations in China, our business, results of operations, financial condition and prospects may be influenced to a significant degree by economic, political, legal and social conditions in China or changes in government relations between China and the United States or other governments. There is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. China's economy differs from the economies of developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange, allocation of resources and legal system. While China's economy has experienced significant growth over the past four decades, growth has been uneven across different regions and among various economic sectors. The Chinese government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are currently applicable to us. In addition, in the past the Chinese government implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operations. In July 2021, the Chinese government provided new guidance to and placed restrictions on mainland China-based companies raising capital outside of mainland China. In light of the recent developments in China and the overall risks with the China-based variable interest entities, or VIE, structure, the SEC has imposed enhanced disclosure requirements on China-based companies seeking to register securities with the SEC. Although we do not have a VIE structure, due to our extensive operations in China, any future Chinese, U.S. or other rules and regulations that place restrictions on capital raising or other activities by companies with extensive operations in China could adversely affect our business and results of operations. If the business environment in China deteriorates from the perspective of domestic or international investment, or if relations between China and the United States or other governments deteriorate, the Chinese government may intervene with our operations and our business in China and United States, as well as the market price of our ADSs, may also be adversely affected.

The Chinese government may intervene in or influence our operations at any time, which could result in a material change in our operations and significantly and adversely impact the value of our ADSs.

We have been advised by Jingtian & Gongcheng, our PRC legal adviser, that we have obtained all necessary permissions or approvals and authorizations in mainland China in all material aspects in relation to conducting our business operations in mainland China. Except for the business licenses issued by the local branch of the State Administration for Market Regulation, which our PRC subsidiaries have obtained and are in full force and effect as of the date of this annual report, Intchains Group Limited and our PRC subsidiaries are not required to obtain other licenses, approvals or permits to conduct our IC design business operations in mainland China.

To the best of our knowledge, as of the date of this annual report, there are no laws or regulations that are or will be adopted in the near future by PRC government authorities that would prevent us from maintaining the business licenses we have obtained or would require us to obtain additional licenses or qualifications in order to operate our IC design business.

However, the Chinese government has significant oversight and discretion over the conduct of our business and may intervene or influence our operations as the government deems appropriate to further regulatory, political and societal goals. The Chinese government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our business operations that could require us to seek permission from Chinese authorities to continue to operate our business, we may be unable to obtain such approval requirements or maintain our business licenses which may adversely affect our business, financial condition and results of operations, and could have a material adverse effect on the trading price of the ADSs. Furthermore, recent statements made by the Chinese government have indicated an intent to increase the government's oversight and control over offerings of companies with significant operations in mainland China that are to be conducted in foreign markets, as well as foreign investment in mainland China-based issuers like us. Any such action, once taken by the Chinese government, could significantly limit or completely hinder our ability to offer or continue to offer ADSs to our investors, and could cause the value of our ADSs to significantly decline or become worthless.

Changes in U.S. and Chinese regulations may adversely impact our business, our operating results, our ability to raise capital and the market price of our ADSs.

The U.S. government, including the SEC, has made statements and taken certain actions that led to changes to United States and international relations, and will impact companies with connections to China, including imposing several rounds of tariffs affecting certain products manufactured in China, imposing certain sanctions and restrictions in relation to China and issuing statements indicating enhanced review of companies with significant China-based operations. On October 7, 2022, the Bureau of Industry and Security (“BIS”) under the Commerce Department of the U.S. issued rules aimed at restricting China’s ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductor products (the “Rule”). Although the Rule is intended to restrict China’s ability to purchase and manufacture certain high-end chips used in military applications, it may result in negative impact on companies that provide advanced computing chips, products containing such chips, or items related to supercomputers and semiconductors to customers based in China. The Rule sets forth the following restrictions, among others, (i) adding certain advanced and high-performance computing chips and computer products that contain such chips to the Commerce Control List of BIS (“CCL”); (ii) adding new license requirements for items destined for an end use relating to supercomputer or semiconductor development or production in China; (iii) adding certain semiconductor manufacturing equipment and related items to the CCL; and (iv) adding new license requirements for items intended for any semiconductor fabrication facility in China that fabricates ICs meeting specified criteria. We provided integrated solutions of high-performance computing ASIC chips products for blockchain applications only. While it does not appear that the Rule is directly applicable to us, we cannot assure you that regulatory authorities will not reach a different conclusion. Should our products be deemed to come within the purview of the Rule, our business, financial condition and results of operations may be materially and adversely affected.

It is unknown whether and to what extent new U.S. government legislation, executive orders, tariffs, laws or regulations will be adopted, or the effect that any such actions would have on companies with significant connections to China, on our industry or on us. Any unfavorable government policies on cross-border relations and/or international trade, including increased scrutiny on companies with significant China-based operations, capital controls or tariffs, may affect our ability to raise capital, the market price of our ADSs or prevent us from selling our products in certain countries. Furthermore, the SEC has issued statements primarily focused on companies with significant China-based operations, such as us.

If any new legislation, executive orders, tariffs, laws and/or regulations are implemented, if existing trade agreements are renegotiated, if the U.S. or Chinese governments take retaliatory actions due to the recent U.S.-China tensions or if the Chinese government exerts more oversight and control over securities offerings that are conducted in the United States, such changes could have an adverse effect on our business, financial condition and results of operations, our ability to raise capital and the market price of our ADSs.

While we have implemented internal control measures to mitigate our risk exposure to international sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of sanctioned persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanction’s designation of our group.

The approval of the CSRC, CAC or other Chinese regulatory agencies may be required in connection with our offshore offerings under Chinese law and, if required, we cannot predict whether we will be able to obtain such approval or complete such filing.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”) purport to require offshore special purpose vehicles that are controlled by Chinese companies or individuals and that have been formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of Chinese domestic companies or assets in exchange for the shares of the offshore special purpose vehicles shall obtain approval from the CSRC prior to publicly listing their securities on an overseas stock exchange.

Based on our understanding of the Chinese laws and regulations in effect as of the date of this annual report, we will not be required to submit an application to the CSRC for its approval of our offshore offerings and the listing and trading of our ADSs on the Nasdaq under the M&A Rules. As of the date of this annual report, we, or any of our subsidiaries have not applied for, received or been denied approval from any Chinese authorities to issue securities in our offshore offerings and/or the listing and trading of our ADSs on the Nasdaq nor have we, or any of our subsidiaries received any inquiry, notice, warning or sanctions regarding our planned overseas listing from the CSRC or any other PRC governmental authorities. However, there remains some uncertainty as to how the M&A Rules will be interpreted or implemented, and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. We cannot assure you that relevant Chinese government agencies, including the CSRC, would reach the same conclusion.

On December 28, 2021, the CAC together with other PRC governmental authorities, promulgated the Measures for Cybersecurity Review, or Cybersecurity Measures, which took effect on February 15, 2022. Pursuant to the Cybersecurity Measures, online platform operators holding personal information of more than one million users and seeking a listing outside China must file for a cybersecurity review with the Cybersecurity Review Office before conducting any listing on a foreign stock exchange. In addition, the purchase of network products and services of a critical information infrastructure operator, or CIIO, and data processing activities of an online platform operator that affect or may affect national security, shall be subject to a cybersecurity review. Alternatively, relevant governmental authorities in the PRC may initiate a cybersecurity review if such governmental authorities determine any network products and services and data processing activities affect or may affect national security.

On November 14, 2021, the CAC published the Regulations on the Administration of Cyber Data Security (Draft for Comments), or Draft Cyber Data Regulations, pursuant to which a “data processor” processing personal information of more than one million individuals and seeking a listing outside China must file for a cybersecurity review. Also, a data processor shall also be subject to cybersecurity review if it conducts other activities that affect or may affect national security. As of the date of this annual report, the Draft Cyber Data Regulations is still in draft form and is not yet legally effective.

As we do not operate any online platform in China, we are not an “online platform operator” holding personal information of more than one million users which is required to file for a cybersecurity review offering pursuant to the Cybersecurity Measures and we are not an CIIO, or an “online platform operator” holding personal information of more than one million users or conducting data processing activities or affect or may affect national security which shall be subject to the cybersecurity review. Therefore, the Measures for Cybersecurity Review will not have material impact on our business and our offering. However, we cannot guarantee that the relevant PRC regulatory authority will not take a view that is contrary to or otherwise different from the opinion stated above. Currently, the Cybersecurity Measures and the Draft Cyber Data Regulations have not materially affected our business and operations, but in anticipation of the strengthened implementation of cybersecurity laws and regulations and the continued expansion of our business, we face potential risks if we are deemed as a CIIO or an “online platform operator” or a “data processor” who collects, stores, uses and processes important data under the PRC cybersecurity laws and regulations.

Furthermore, on July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law, pursuant to which Chinese regulators are required to accelerate rulemaking related to the overseas issuance and listing of securities, and update the existing laws and regulations related to data security, cross-border data flow, and management of confidential information. Numerous regulations, guidelines and other measures have been or are expected to be adopted under the umbrella of or in addition to the Cyber Security Law and Data Security Law.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, and five supporting guidelines, which have come into effect on March 31, 2023. Pursuant to the Trial Measures, domestic companies that seek to offer or list securities overseas, both directly and indirectly, shall complete filing procedures with the CSRC pursuant to the requirements of the Trial Measures within three working days following its submission of initial public offerings or listing application. If a domestic company fails to complete required filing procedures or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines.

On February 24, 2023, the CSRC, together with Ministry of Finance of the PRC, National Administration of State Secrets Protection and National Archives Administration of China, revised the Provisions on Strengthening Confidentiality and Archives Administration for Overseas Securities Offering and Listing which was issued by the CSRC, National Administration of State Secrets Protection and National Archives Administration of China in 2009, or the Provisions. The revised Provisions is issued under the title the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, and have come into effect on March 31, 2023 together with the Trial Measures. One of the major revisions to the revised Provisions is expanding its application to cover indirect overseas offering and listing, as is consistent with the Trial Measures. The revised Provisions require that, including but not limited to (a) a domestic company that plans to, either directly or indirectly through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any documents and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level; and (b) domestic company that plans to, either directly or indirectly through its overseas listed entity, publicly disclose or provide to relevant individuals and entities including securities companies, securities service providers and overseas regulators, any other documents and materials that, if leaked, will be detrimental to national security or public interest, shall strictly fulfill relevant procedures stipulated by applicable national regulations. Any failure or perceived failure by the Company or PRC subsidiaries to comply with the above confidentiality and archives administration requirements under the revised Provisions and other PRC laws and regulations may result in that the relevant entities would be held legally liable by competent authorities, and referred to the judicial organ to be investigated for criminal liability if suspected of committing a crime.

As there are still uncertainties regarding the interpretation and implementation of such regulatory guidance, we cannot assure you that we will be able to comply with new regulatory requirements relating to our future overseas capital-raising activities and we may become subject to more stringent requirements with respect to matters including data privacy and cross-border investigation and enforcement of legal claims. Notwithstanding the foregoing, as of the date of this annual report, we are not aware of any Chinese laws or regulations in effect requiring that we obtain permission from any Chinese authority to issue securities to foreign investors, and we have not received any inquiry, notice, warning, sanction or any regulatory objection to our offshore offerings from the CSRC, the Cyberspace Administration of China, or the CAC, or any other Chinese authorities that have jurisdiction over our operations.

Based on the above and our understanding of the Chinese laws and regulations currently in effect as of the date of this annual report, we are not required to submit an application to the CSRC or the CAC for the approval of our offshore offerings and the listing and trading of our ADSs on the Nasdaq. However, there remains significant uncertainty as to the enactment, interpretation and implementation of regulatory requirements related to overseas securities offerings and other capital markets activities. If it is determined that we are subject to the Trial Measures for the listing of the ADRs on the Nasdaq, we may fail to obtain required approval, complete required filing or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval, complete required filing or procedures for our offshore offerings, or a rescission of any such approval or filing obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory agencies may impose fines and penalties on our operations in mainland China, limit our ability to pay dividends outside of China, limit our operations in China, delay or restrict the repatriation of the proceeds from our offshore offerings into mainland China or take other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs. The CSRC, the CAC or other Chinese regulatory agencies also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the ADSs. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC, the CAC or other regulatory agencies later promulgate new rules requiring that we obtain their approvals for our offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding such an approval requirement could have a material adverse effect on the trading price of the ADSs.

Recent negative publicity surrounding China-based companies listed in the United States may negatively impact the trading price of our ADSs.

We believe that recent negative publicity surrounding companies with operations in China that are listed in the United States have negatively impacted the stock prices of these companies. Certain politicians in the United States have publicly warned investors to shun China-based companies listed in the United States. The SEC and the Public Company Accounting Oversight Board (United States), or the PCAOB, also issued a joint statement on April 21, 2020, reiterating the disclosure, financial reporting and other risks involved in the investments in companies that are based in emerging markets as well as the limited remedies available to investors who might take legal action against such companies. Furthermore, various equity-based research organizations have recently published reports on China-based companies after examining their corporate governance practices, related party transactions, sales practices and financial statements, and these reports have led to special investigations and listing suspensions on U.S. national exchanges. Any similar scrutiny on us, regardless of its lack of merit, could cause the market price of our ADSs to fall, divert management resources and energy, cause us to incur expenses in defending ourselves against rumors, and increase the premiums we pay for director and officer insurance.

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

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

Our auditor, the independent registered public accounting firm that issued the audit report included in this annual report, as auditor of companies that are traded publicly in the United States and as a firm registered with the PCAOB is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our auditor, which is based in New York, is currently subject to inspection by the PCAOB at least every three years. However, our auditor's China affiliate is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities.

On December 16, 2021, the PCAOB issued a report on its determinations that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong because of positions taken by PRC authorities in those jurisdictions. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. Therefore, our auditor is currently able to be fully inspected and investigated by the PCAOB. Accordingly, until such time as the PCAOB issues any new determination, we are at no risk of having our securities subject to a trading prohibition under the HFCAA. On December 29, 2022, the Consolidated Appropriations Act, 2023 was signed into law, which, among other things, amended the HFCAA to reduce to number of consecutive years an issuer can be identified as a Covered Issuer before the SEC must impose an initial trading prohibition on the issuer's securities from three years to two years. Therefore, once an issuer is identified as a Covered Issuer for two consecutive years, the SEC is required under the HFCAA to prohibit the trading of the issuer's securities on a national securities exchange and in the over-the-counter market.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Covered Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Covered Issuer for two consecutive years in the future. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. If our ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

Economic, political and social conditions as well as governmental policies in the PRC could adversely affect our business, prospects, financial condition and financial results.

A majority of our business operations is currently conducted in the PRC and we derive a majority of our revenue from the PRC. The PRC economy differs from the economies of most developed countries in many aspects, including:

- political structure;
- level of government involvement and control;
- growth rate and level of development;
- level and control of capital investment and reinvestment;
- control of foreign exchange;

- allocation of resources; and
- legal systems.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy for approximately four decades as the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. We cannot predict whether changes in the economic, political and social conditions of the PRC and in its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

More specifically, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. These actions, as well as other actions and policies of the government of the PRC, could cause a decrease in the overall level of economic activity in the PRC and the surrounding regions and, in turn, have an adverse impact on our business and financial condition.

Changes to and uncertainties in the legal system of the PRC may have a material adverse impact on our business, financial condition and results of operations. Legal protections available to you under the legal system of the PRC may be limited.

The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. It may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. Consequently, developments and changes in the PRC laws and regulations, including their interpretation and enforcement, may have a material and adverse effect on our business, financial condition and results of operations. Furthermore, the legal protections available to you under the PRC legal system may be limited.

You may experience difficulties enforcing judgments against us and our management in the PRC.

We are not a Chinese operating company but a Cayman Islands holding company. Substantially all of our assets are located outside of the United States, and substantially all of our current operations are conducted in the PRC. In addition, except for Dr. Weiping Ma, our current directors and executive officers, including Mr. Qiang Ding, Mr. Chaohua Sheng, Mr. Conway Kong-Wai Lee, Mr. Qingyang Gu, and Mr. Chaowei Yan, are nationals and residents of countries other than the United States. Substantially all or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the civil liability provisions of the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and the PRC, see “Enforceability of Civil Liabilities.”

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to make capital contributions into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect our financial position.

Under several regulations promulgated by SAFE, PRC residents and PRC corporate entities are required to register with and obtain approval from local branches of SAFE or designated qualified foreign exchange banks in mainland China in connection with their direct or indirect offshore investment activities. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of SAFE, with respect to any material change involving that offshore company, such as an increase or decrease in capital, transfer or swap of shares, merger or division. These regulations apply to all direct and indirect shareholders and beneficial owners of our company who are PRC residents, or PRC-Resident Shareholders, and may apply to any offshore acquisitions that we make in the future. To the best of our knowledge, as of the date of this annual report, each of our principal shareholders who is required to make the foreign exchange registration under SAFE Circular 37 had completed such registration. However, we may not at all times be fully aware or informed of the identities of all the PRC residents holding direct or indirect interests in our company, and we cannot assure you that all of our shareholders and beneficial owners who are PRC residents will comply with these foreign exchange regulations.

If any PRC-Resident Shareholder fails to make the required registration or update a previously filed registration, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into our PRC subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability on the related PRC-Resident shareholder or our PRC subsidiaries under the PRC laws for evasion of applicable foreign exchange restrictions.

Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our PRC operating subsidiaries, which could restrict our ability to act in response to changing market conditions in a timely manner.

We are a Cayman Islands holding company and a certain portion of our operations are conducted through our operating subsidiaries. The ability of our operating subsidiaries to make dividend and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations.

In particular, under the PRC law, each of our PRC operating subsidiaries may only pay dividends after 10% of its net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of its registered capital. In addition, the profit available for distribution from our PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. This calculation may differ if it were performed in accordance with U.S. GAAP. As a result, we may not have sufficient distributions from our PRC operating subsidiaries to enable necessary profit distributions to our shareholders in the future, which would be based upon our financial statements prepared under U.S. GAAP.

Distributions by our PRC operating subsidiaries to us other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from our company to our PRC operating subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. These limitations on the free flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions in a timely manner.

Dividends payable by us to our foreign investors and gains on the sale of the ADSs may become subject to withholding taxes under the PRC tax laws.

Under the EIT Law and EIT Implementation Rules, our foreign corporate shareholders may be subject to a 10% income tax upon any gains realized from the transfer of their ADSs and dividends distributable to such foreign corporate shareholder, if such income is regarded as income from “sources within the PRC.” According to the EIT Implementation Rules, whether income generated from transferring equity investments is to be regarded as sources within the PRC or from foreign territory shall depend upon the locations in which the enterprises accepting the equity investment are located. However, it is unclear whether income received by our shareholders will be deemed to be income from sources within the PRC and whether there will be any exemption or reduction in taxation for our foreign corporate shareholders due to the promulgation of the EIT Law. If our foreign corporate shareholders are required to pay PRC income tax on the transfers of the ADSs that they hold or on the gains on the sale of the ADSs by them, the value of our foreign corporate shareholders’ investments in the ADSs may be materially and adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders’ loans or capital contributions after completion of our initial public offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed a statutory limit, and shall be filed with SAFE or its local counterparts. Furthermore, any capital contributions we make to our PRC subsidiaries shall be registered with the PRC State Administration for Market Regulation or its local counterparts, and reported to with the Ministry of Commerce or its local counterparts.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, or SAFE Circular 19. SAFE Circular 19, however, allows foreign invested enterprises in mainland China to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of a foreign invested company settled in RMB converted from foreign currencies remains not allowed to be used, among other things, for investment in the security markets, or offering entrustment loans, unless otherwise regulated by other laws and regulations. On June 9, 2016, SAFE further issued the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which, among other things, amended certain provisions of Circular 19. According to SAFE Circular 19 and SAFE Circular 16, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign invested company is regulated such that RMB capital may not be used for purposes beyond its business scope or to provide loans to non-affiliates unless otherwise permitted under its business scope. On October 23, 2019, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-Border Trade and Investment, or SAFE Circular 28, which removes the restrictions on domestic equity investments by non-investment foreign-invested enterprises with their capital funds, provided that certain conditions are met. The applicable foreign exchange circulars and rules may limit our ability to transfer the net proceeds from our initial public offering to our PRC subsidiaries and convert the net proceeds into RMB, which may adversely affect our business, financial condition, and results of operations.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The EIT Law provides that enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of the PRC as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the enterprise income tax, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular mentioned above sets out criteria for determining whether “de facto management bodies” are located in the PRC for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside of the PRC that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a “resident enterprise” we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC shareholders as well as capital gains recognized by them with respect to the sale of the ADSs may be subject to a PRC withholding tax.

This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

Government control of foreign currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Labor contract laws in China may adversely affect our results of operations.

The current PRC Labor Contract Law imposes greater liabilities on employers and significantly increases the cost of an employer’s decision to reduce its workforce. Moreover, it stipulates that the employment contract of an employee must be automatically terminated upon reaching the mandatory retirement age. If we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

Increases in labor costs and employee benefits in China may adversely affect our business and our profitability.

The PRC economy has been experiencing significant growth, leading to inflation and increased labor costs. China’s overall economy and the average wage in China are expected to continue to grow. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The determination of the relevant government agencies whether an employer has made adequate payments of the requisite statutory employee benefits is within their discretion. Employers that fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. Future increases in China’s inflation and material increases in labor costs and employee benefits may materially and adversely affect our profitability and results of operations unless we are able to pass on these costs to our customers.

Risks Relating to the ADSs

Recent litigation and negative publicity surrounding China-based companies listed in the United States may negatively impact the trading price of our ADSs.

We believe that recent litigation and negative publicity surrounding companies with operations in China that are listed in the United States has negatively impacted the stock prices of these companies. Certain politicians in the United States have publicly warned investors not to invest in China-based companies listed in the United States. The SEC and the PCAOB also issued a joint statement on April 21, 2020 reiterating the disclosure, financial reporting and other risks involved in investments in companies that are based in emerging markets, as well as the limited remedies available to investors who might take legal action against such companies. Furthermore, various equity-based research organizations have recently published reports on China-based companies after examining their corporate governance practices, related party transactions, sales practices and financial statements, and these reports have led to special investigations and listing suspensions on U.S. national exchanges. Any similar scrutiny regarding our company or business, regardless of its lack of merit, could cause the market price of our ADSs to fall, could divert management resources and energy and could cause us to incur expenses in defending ourselves against rumors.

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

The trading price of the ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial trading price declines. The trading performances of other PRC companies' securities after their offerings may affect the attitudes of investors toward PRC companies listed in the United States in general, and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our ADSs may be highly volatile due to factors specific to our own operations, including the following:

- variations in our revenue, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new offerings, solutions and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our products or our industry;
- additions or departures of key personnel;
- the release of lockup or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In addition, the share price of a number of companies involved in initial public offerings, particularly among companies with relatively smaller public floats, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Such rapid and substantial price volatility, including any share price run-up, may be unrelated to our actual or expected operating performance and financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our ADSs. This volatility may prevent you from being able to sell your securities at or above the price you paid for your securities. If the market price of our ADSs after our initial public offering does not exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment.

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

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.

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

Because we do not expect to pay dividends in the foreseeable future after our initial public offering, you must rely on price appreciation of the ADSs for a return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings after our initial public offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value after our initial public offering or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs, and you may even lose your entire investment in the ADSs.

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial

We have adopted a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Based on our dual-class share structure, holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to ten votes per share. We will issue Class A ordinary shares represented by our ADSs in our initial public offering. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. However, the creation of any pledge, charge, encumbrance or other third party right on any Class B ordinary shares to secure a holder's contractual or legal obligations, except in cases where and until any such pledge, charge, encumbrance or other third party right is enforced and results in the third party holding legal title to the relevant Class B ordinary shares, will not be considered as a sale, transfer, assignment or disposition and will not trigger the automatic conversion. In addition, the termination of directorship on the board or employment with us of any holder of Class B ordinary shares will not trigger the automatic conversion either.

Due to the disparate voting powers attached to these two classes of ordinary shares, our co-founders, namely, Mr. Qiang Ding and Mr. Chaohua Sheng, will beneficially own all of our issued Class B ordinary shares, representing 53.4% of our total issued and outstanding share capital as of February 29, 2024 and they will be able to exercise 92.0% of the total voting power of our issued and outstanding share capital as of the same date. You will experience further dilution to the extent that additional Class B ordinary shares are issued in the future. As a result, our founders will have considerable influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Class A ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

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

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

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

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

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

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

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

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. We may follow the home country practice for certain corporate governance practices after our initial public offering which may differ from the requirements of the Nasdaq. If we choose to follow the home country practice, our shareholders may be afforded fewer protections than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

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

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

We are a Cayman Islands exempted company and all of our assets are located outside of the United States. Our operations are primarily conducted in China. In addition, except for Dr. Weiping Ma, all of our current directors and executive officers, including Mr. Qiang Ding, Mr. Chaohua Sheng, Mr. Conway Kong-Wai Lee, Mr. Qingyang Gu and Mr. Chaowei Yan, are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the civil liability provisions of the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Fluctuations in the exchange rate between the RMB and the U.S. dollar could result in foreign currency exchange losses and could materially reduce the value of your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government ended its policy of pegging the value of the RMB to the U.S. dollar. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, the RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB had depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. Starting from the beginning of 2019, the RMB has depreciated significantly against the U.S. dollar again. In early August 2019, the PBOC set the RMB's daily reference rate at RMB7.0039 to US\$1.00, the first time that the exchange rate of the RMB to the U.S. dollar exceeded 7.0 since 2008. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Substantially all of our revenue and costs are denominated in RMB. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of the RMB may materially and adversely affect our results of operations and financial position reported in RMB when translated into U.S. dollars, and the value of, and any dividends payable on, the ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we receive from our initial public offering into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount.

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

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company until the fifth anniversary from the date of our initial listing.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. We intend to avail ourselves of the extended transition period.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities laws and regulations in the United States that apply to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We will be required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the Nasdaq. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely than that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer's most recently completed second fiscal quarter, and, accordingly, the next determination will be made with respect to us on June 28, 2024. In the future, we would lose our foreign private issuer status if (1) more than 50% of our outstanding voting securities are owned by U.S. residents and (2) a majority of our directors or executive officers are U.S. citizens or residents, or we fail to meet additional requirements necessary to avoid the loss of foreign private issuer status. If we lose our foreign private issuer status, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to comply with U.S. federal proxy requirements, and our officers, directors and 10% shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the listing rules of the Nasdaq. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we will not incur as a foreign private issuer.

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

As a holder of the ADSs, you will only be able to exercise the voting rights with respect to the underlying ordinary shares represented by your ADSs in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will vote the underlying ordinary shares represented by your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares represented by your ADSs unless you cancel and withdraw such ordinary shares. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the underlying ordinary shares represented by your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying ordinary shares represented by your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the underlying ordinary shares represented by your ADSs are not voted as you requested.

The depository for the ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not vote, the depository may give us a discretionary proxy to vote the ordinary shares underlying the ADSs at shareholders' meetings if we have timely provided the depository with notice of meeting and related voting materials and (i) we have instructed the depository that we wish a discretionary proxy to be given, (ii) we have informed the depository that there is no substantial opposition as to a matter to be voted on at the meeting, and (iii) a matter to be voted on at the meeting would not have a material adverse impact on shareholders.

The effect of this discretionary proxy is that you cannot prevent the underlying ordinary shares represented by the ADSs from being voted, except under the circumstances described above. This may make it more difficult for holders to influence the management of the company. Holders of ordinary shares are not subject to this discretionary proxy.

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

Under the deposit agreement, any action or proceeding against or involving the depository, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding.

The depository may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, although the arbitration provisions do not preclude you from pursuing claims under the Securities Act or the Exchange Act in state or federal courts.

ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, subject to the depositary's right to require a claim to be submitted to arbitration, the federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement and in that regard, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws. As the waiver relates to claims arising as a matter of contract in relation to the ADSs, we believe that, as a matter of construction of the clause, the waiver would likely to continue to apply to ADS holders who withdraw the Class A ordinary shares represented by the ADSs from the ADS facility with respect to claims arising before the withdrawal, and the waiver would most likely not apply to ADS holders who subsequently withdraw the Class A ordinary shares represented by ADSs from the ADS facility with respect to claims arising after the withdrawal. However, to our knowledge, there has been no case law on the applicability of the jury trial waiver to ADS holders who subsequently withdraw the Class A ordinary shares represented by the ADSs from the ADS facility.

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

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

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs shall relieve us or the depositary from our respective obligations to comply with the Securities Act and the Exchange Act.

The deposit agreement may be amended or terminated without your consent.

We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. However, amendment to certain rights that may increase costs or prejudice a substantial right of ADS holders will not take effect until 30 days after notice thereof in accordance with the deposit agreement.

You, as holders of ADSs, may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of the ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights that are carried by the underlying ordinary shares represented by your ADSs indirectly in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the underlying ordinary shares represented by your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depositary will try to vote the underlying ordinary shares represented by your ADSs in accordance with those instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares represented by your ADSs unless you withdraw such ordinary shares and become the registered holder of such shares prior to the record date for the general meeting.

You may experience dilution of your holdings due to the inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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

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

We may incur increased costs as a result of being a public company, particularly after we ceased to qualify as an “emerging growth company.”

We are a public company and expect to incur significant legal, accounting and other public company expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules previously and subsequently implemented by the SEC and the Nasdaq, impose various requirements on the corporate governance practices of public companies.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or to incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. In addition, we will incur other additional costs associated with our public company reporting requirements under the SEC rules and regulations. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

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

As a Cayman Islands exempted company listed on the Nasdaq, we are subject to Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance standards. We intend to follow Cayman Islands corporate governance practices in lieu of the corporate governance requirements of the Nasdaq that listed companies must have for as long as we qualify as a foreign private issuer including:

- a nomination and corporate governance committee composed entirely of independent directors;
- a compensation committee composed entirely of independent directors;
- provide an annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the Nasdaq;
- have regularly scheduled executive sessions with only independent directors; or
- seek shareholder approval for (i) the implementation and material revisions of the terms of share incentive plans, (ii) the issuance of more than 1% of our outstanding ordinary shares or more than 1% of our outstanding voting power to a related party, (iii) the issuance of more than 20% of our outstanding ordinary shares, and (iv) an issuance that would result in a change of control.

To the extent we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under Nasdaq corporate governance standards applicable to U.S. domestic issuers.

We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors.

Based on the past and projected composition of our income and assets, and the valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or a PFIC, in the current taxable year or in the foreseeable future, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. The composition of our assets and income may be affected by how, and how quickly, we use our liquid assets. Because we have valued our goodwill based on the expected market value of the ADSs, a decrease in the price of the ADSs may also result in our becoming a PFIC.

If we are a PFIC for any taxable year during which you hold the ADSs or ordinary shares, our PFIC status could result in adverse United States federal income tax consequences to you if you are a United States Holder, as defined under “Taxation—U.S. Federal Income Tax Consequences.” For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. There can be no assurance that we will not be a PFIC for the current or any future taxable year. Our U.S. counsel expresses no opinion with respect to our PFIC status.

Techniques employed by short sellers may drive down the market price of the ADSs.

Short selling is the practice of selling securities that a seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. Short sellers hope to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as short sellers expect to pay less in that purchase than they received in the sale. As it is in short sellers’ interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions and allegations regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of, among other things, lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies have conducted or are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

We may be the subject of short selling, and it is not clear what long-term effect the related negative publicity could have on us. We may also be subject to short seller attacks from time to time in the future. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we may have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short sellers by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could divert management’s attention from the day-to-day operations of our company. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact the market price of our ADSs and our business operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We, Intchains Group Limited, are a holding company incorporated in the Cayman Islands and conduct our operations primarily through our PRC subsidiaries. We began our operations in December 2017 when Shanghai Intchains Technology Co., Ltd., or Shanghai Intchains, was founded in Shanghai, China.

With the growth of our business and in order to facilitate international capital raising, we underwent an offshore reorganization in the second half of 2021. In June 2021, Intchains Group Limited was incorporated in the Cayman Islands as our offshore holding company. Shortly after its incorporation, Intchains Group Limited incorporated a wholly-owned subsidiary in the British Virgin Islands, or BVI, namely, Intchains Investment (BVI) Limited, or Intchains BVI. In October 2021, Intchains Global Limited, or Intchains Global, was incorporated in the BVI as a wholly-owned subsidiary of Intchains Group Limited. In February 2022, Intchains Global acquired 100% equity interest in Intchains Pte. Ltd., or Intchains Singapore, a private limited company incorporated in Singapore, for the purpose of holding our planned business in Singapore. Following the incorporation of Intchains BVI, Intchains Technology (Hongkong) Limited, or Intchains HK, was incorporated in Hong Kong in July 2021 as a wholly-owned subsidiary of Intchains BVI. In September 2021, Intchains HK established Jerryken Intelligent Technology (Shanghai) Co., Ltd., or WFOE, as a wholly foreign owned entity in the PRC. In October 2021, Golden Stone Hong Kong Holding Limited, a then independent third party which is wholly owned by Mr. Zhaoyang Ma who is a principal shareholder, acquired 1% equity interest in Shanghai Intchains, upon completion of which, Shanghai Intchains became a sino-foreign equity joint venture. WFOE acquired approximately 82.49% equity interest in Shanghai Intchains in November 2021 and further acquired the remaining 17.51% equity interest in Shanghai Intchains in December 2021, and Intchains Group Limited became the ultimate holding company of our operating subsidiaries. On July 8, 2022, we subdivided our authorized share capital from US\$50,000 divided into US\$0.0001 par value each to US\$50,000 divided into US\$0.000001 par value each. In May 2023, Intchains Capital Limited was incorporated in the Cayman Islands as a wholly-owned subsidiary of Intchains Group Limited.

Corporate Information

We are a Cayman Islands exempted company limited by shares, operating under the Companies Act of the Cayman Islands. Our principal executive offices are located at Building 16, Lane 999, Xinyuan South Road, Lin-Gang Special Area, Pudong, Shanghai, 201306, the People's Republic of China, and our telephone number is +86 021 5896 1080. Our primary website address is <http://www.intchains.com>. The information on our websites do not form a part of this annual report. In March, 2023, we completed our initial public offering on the Nasdaq Capital Market. In the offering, 1,114,516 ADSs, representing 2,229,032 Class A ordinary shares, were issued and sold to the public at a price of USD 8.00 per ADS, after underwriter partially exercised over-allotment option to purchase additional ADSs. Our agent for service of process in the United States is Puglisi & Associates, located at t 850 Library Avenue, Suite 204, Newark, Delaware 19711. The SEC maintains an Internet site at <http://www.sec.gov> that contains electronic reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC. For information regarding our principal capital expenditures, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures."

B. Business Overview

Overview

We are a provider of integrated solutions of high-performance computing ASIC chip products for blockchain applications. We have a fabless business model and specialize in the front-end and back-end of IC design, which are the major components of the IC product development chain. We have strong supply chain management through our well-established business partnership with a leading foundry, which helps to ensure our product quality and stable production output.

Our products primarily include high-performance computing ASIC chip products consisting of ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. We have built a proprietary technology platform named "Xihe" Platform, which allows us to develop a wide range of ASIC chips with high efficiency and scalability. We design our ASIC chips in-house, which enables us to leverage proprietary silicon data to deliver products reflecting the latest technological developments ahead of our competitors. As of December 31, 2023, we had completed a total of nine tape-outs using our "Xihe" Platform for 22nm and 12nm ASIC chips, achieving a 100% success rate for all our tape-outs.

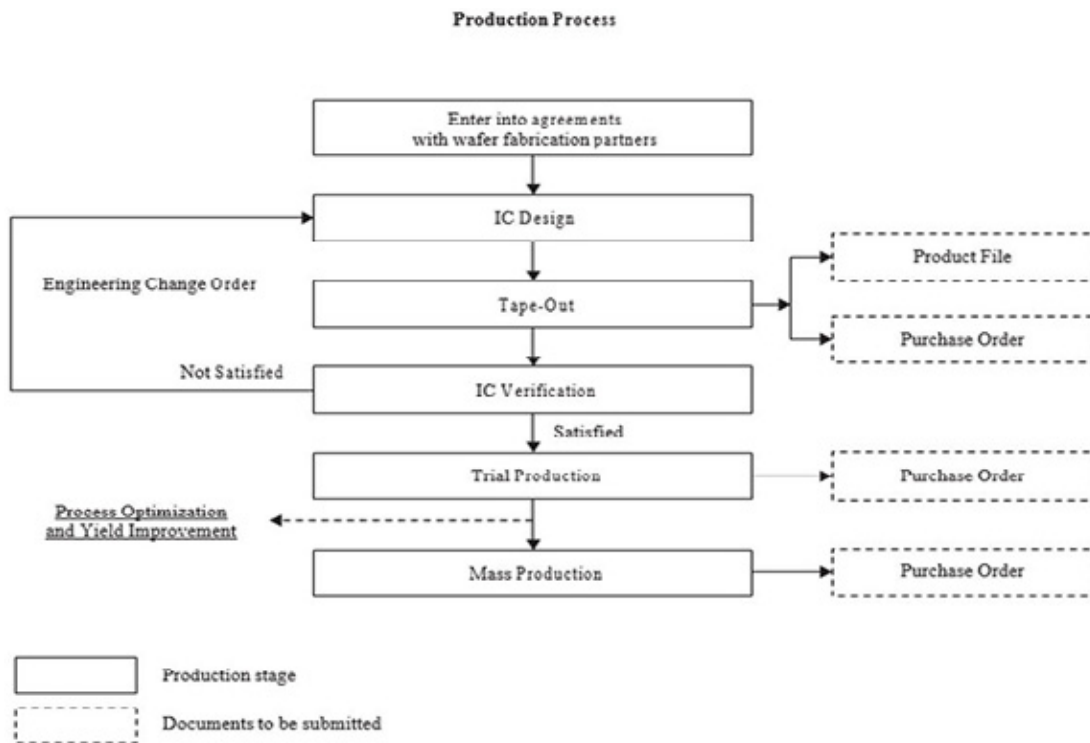
The blockchain industry experienced challenges in 2023 and uncertainties in the market had negatively impacted our business performance. Our total revenue decreased from RMB631.8 million in 2021 to RMB473.7 million (US\$68.7 million) in 2022 and further decreased to RMB82.2 million (US\$11.6 million) in 2023. Our net income decreased from RMB450.1 million in 2021 to RMB355.2 million in 2022. We recorded a net loss of RMB26.8 million (US\$3.8 million) in 2023.

Despite these challenges, we maintain our confidence in our business strategy and long-term prospects, particularly as the broad market has shown signs of recovery in the fourth quarter of 2023. Our strong commitment to advanced research and development enables us to continuously innovate and create ASIC chips with superior performance to power ratio at reasonable cost. Our latest ASIC chip, designed and manufactured using a 12nm process node, completed the relevant IC verification and trial production processes in February 2024 and is set to enter mass production in March 2024. In addition, we initiated our business expansion in Singapore in 2023 by dispatching members of senior management to station in Singapore and entering dialogues with potential local distributors for cooperation. In December 2023, we entered into an asset acquisition agreement with a Singapore-based company to purchase certain assets used in the operation of its Goldshell WEB3 infrastructure brand with the aim of enabling us to enter the downstream production and sales sector across computing equipment for blockchain applications and other WEB3 infrastructure-related hardware and software products. We completed such acquisition in February 2024.

We operate business primarily in China and are subject to complex and evolving PRC laws and regulations. Uncertainties in the PRC legal system and the interpretation and enforcement of PRC laws and regulations could limit the legal protection available to you and us, hinder our ability to offer our ADSs in the future, result in a material adverse effect on our business operations, and damage our reputation, which might further cause our ADSs to significantly decline in value or become worthless. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC.”

Our Products

We primarily offer high-performance computing ASIC chip products including ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. We utilize a fabless business model and specialize in the front-end and back-end of IC design, which are the major components of the IC product development chain. See forth below is a diagram illustrating the general process of our ASIC chip design and production:



Our ASIC Chip Products

We focus on the design of ASIC chips for blockchain applications. We engage in the front-end and back-end of ASIC chip design, the major links in the product development chain for ASIC chips. To suit our customers’ needs for mining different types of cryptocurrencies, we offer them a comprehensive suite of ASIC chips that can be used in cryptocurrency mining machines for a number of popular alternative cryptocurrencies other than Bitcoins, including Litecoin, Dogecoin, Kaspas, Kadena, Nervos Network and Handshake, among others. As the cryptographic algorithms involved for mining different types of cryptocurrencies are different, we have developed various unique ASIC chip designs to drive such mining hardware. The ASIC chip products we offer include the professional version used for professional computer servers, the lite version and the box version used for individual users.

In order to maintain our competitive advantage in the ASIC chip market, we continually iterate our ASIC chip design to optimize computing power and power efficiency. The following table sets forth a summary of the status of the development of our ASIC chips.

Algorithm	Chip Model	Tape Out	Status
Blake2bsha3	ICC590	May 2020	In mass production
Blake2s	ICA586	October 2020	In mass production
	ICA585	December 2021	In mass production
	ICA588	October 2020	In mass production
Eaglesong	ICA589	October 2020	In mass production
Sha512MD160	ICA589	October 2020	In mass production
Blake2b	ICT580	June 2019	In mass production
Scrypt	IAA561	May 2021	In mass production
	ICT560	June 2019	In mass production
	ICQ550	October 2018	Near end of product cycle
	IEN610	October 2023	Tape-out completed and expected for mass production in Q1 2024
Cryptonight V4	ICT570	June 2019	In mass production
Cryptonight V2	ICQ530	October 2018	Near end of product cycle
kHeavyHash	IEN616	October 2023	Tape-out completed and expected for mass production in Q1 2024
Confidential Algorithm	ICC551/552/553	March 2022	In mass production
Confidential Algorithm	IEN618	October 2023	Tape-out completed and expected for mass production in Q1 2024

We price our ASIC chips in consideration of the market price of cryptocurrencies, prices of our competitors' products, expected economic return of cryptocurrency mining, product types and demand for mining hardware. Additionally, we have adopted a floating pricing mechanism, consistent with industry practice. We normally set an initial price for our product at launch and lower the price as more competing products enter the market. When the market price of a cryptocurrency fluctuates, we will adjust the price of our products accordingly.

For most cryptocurrencies that require a mining process to be released or traded, the computing services mainly revolve around the mining hardware. The global cryptocurrency mining hardware industry consists of all the hardware used for mining cryptocurrencies under different chip architecture and algorithms, mainly dominated by ASIC-based and GPU-based mining hardware with high computing power.

Drawing upon our extensive knowledge of the cryptocurrency industry and strong technological expertise in ASIC chip design, we expanded our product offerings in the fourth quarter of 2023 to include computing equipment designed for blockchain applications. Our computing equipment is built using our proprietary product solutions and integrates our ASIC chips. To ensure efficient assembly and production, we have partnered with two contract manufacturers based in the PRC to assemble our computing equipment.

We also offer ancillary hardware including computing board, control board and other accessories such as power supply and structural parts, and ancillary software, which is embedded in hardware and provide basic configuration of relevant hardware that enables end-users to monitor the working condition of the chips in real time, including real-time hash rate, temperature and network connection. Such ancillary hardware and software are sold to distributors in the PRC in connection with their sales of computing equipment for blockchain applications to end users.

The price of bitcoin or thereum does not directly impact our ASICs chip products as they are used for mining alternative cryptocurrencies. Instead, our business and financial condition correlate with the market price of alternative cryptocurrencies. During the year ended December 31, 2023, our revenue was primarily generated from the sales of ASIC chip products used for mining alternative cryptocurrencies, and its historical rapid growth was largely driven by the drastic increase of the price of alternative cryptocurrencies. Generally, fluctuations of the market price of alternative cryptocurrencies may impact cryptocurrency mining activities and the demand for our chips, and thus affect our overall operating results.

Our "Xihe" Platform

We have built a proprietary technology platform named "Xihe" Platform, which allows us to develop a wide range of ASIC chips with high efficiency and scalability. The platform integrates our self-developed blockchain PoW algorithms and related cryptographic algorithms, as well as our systematic data analysis process. Since our inception, we have developed over 40 different hardware models and several innovative systems under the "Xihe" Platform that are dedicated to the research and development of chips, including a factory production test system, an after-sales data system, a computing server system and a batch management system.

Our “Xihe” Platform is a platform based on advanced computing technologies and focused on the application of HPC ASIC chips and their related integrated solutions in the blockchain field. The “Xihe” Platform helps to facilitate our research and development in the application of high-power computation in the blockchain field and enables us to achieve shorter time-to-market of our products and achieve lower cost and higher gross profit. The advantages of the “Xihe” Platform include the following:

- it continuously establishes and updates the foundry database standards based on advanced technologies to effectively optimize the functionality, power consumption and surface area of power computing chips, thereby achieving lower cost and higher gross profit margin;
- capabilities in blockchain PoW algorithms and related cryptology-based computing algorithms allow us to perform systematic analysis, analyze algorithms, develop ASIC solutions, and seize new market opportunities;
- comprehensive baseboard design, testing board/design, automatic test equipment and system level test solution design capabilities give us flexibility in selecting ASIC chip types and production plans, which in turn enables us to roll out products quickly, ensure the quality of our chips and thereby lower our costs; and
- it maximizes production efficiency through equipping our production process with self-developed software tailored to our chips, including self-developed factory production testing system, after-sales data system, server backstage system, and volume/group management system.

Through our “Xihe” Platform, we have been able to launch products with shorter time-to-market, lower overall costs and relatively higher gross profit margins compared to our competitors in the industry. We design our ASIC chips in-house, enabling us to leverage proprietary silicon data for next generation products. Furthermore, from our past tape-outs with 100% success rate, we own the most critical silicon data that gives us advantages to deliver the most advanced product ahead of our competitors. For emerging market opportunities, we can quickly analyze the relevant algorithms, offer ASIC solutions and achieve mass production of the ASIC chips in five to eight months, compared to ten to 14 months generally needed by our industry peers. The ASIC solutions we offer are among the best in the industry within the same time window.

Sales and Marketing

For our ASIC chip products used in blockchain applications, customers evaluate technical performance specifications of chips and select their suppliers. We conduct limited sales and marketing efforts as customers assess and engage us through professional channels based on the known specifications of our products. Professional third-party websites in our industry have rankings of ASIC chip products based on performance criteria, and many customers connect with us through these websites. Our sales and marketing personnel communicate with potential customers to understand their needs and product requirements and recommend suitable products to them. Demand for our products has generally exceeded our production output and we require either full or partial prepayment from customers upon placement of purchase orders. We have not relied heavily on sales force for advertising and marketing of our ASIC chip products, as most of our customers approach us proactively.

Our Customer Base

Our customer base primarily consists of distributors located in the PRC. For the year ended December 31, 2023, we had seven customers with two contributing more than 10% of our revenue each, accounting for 56.2% and 41.9%, respectively, of our revenue. We believe that in the hypothetical scenario where our relationship with our main customers is impaired or terminated, we are well-positioned to sell our ASIC chip products to other distributors in the PRC as the demand for our products is primarily driven by their performance and the overall market condition of cryptocurrency market, rather than specific distributors. In addition, we expect such high customer concentration to decrease in 2024 as we have officially launched our Goldshell-branded computing equipment for blockchain applications to individual and corporate customers in March 2024.

Generally, we either require prepayment in full or offer alternate payment plans for customers to prepay a certain percentage with the remainder to be settled after delivery of the products. We conduct credit evaluations of customers, and generally do not require collateral or other security from our customers. We establish an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. For the year ended December 31, 2023, substantially all of our customers paid the full purchase price before we delivered our products. Our customers generally resell purchased products to end users or other buyers located in overseas markets. We generally do not enter into long term agreements with our customers. Sales are typically made on one-off sales contract or purchase order bases.

Research and Development

We consider our research and development capability to be key to the development of our business. We engage in ongoing research and development activities to meet the technological requirements of customers and maintain our cutting-edge technological capabilities. As of December 31, 2023, our research and development team comprised a total of 99 employees, or approximately 74.4% of our total number of employees. Our research and development expenses were RMB42.3 million (US\$6.0 million) for the year ended December 31, 2023.

Our research and development team is led by our chief technology officer, Mr. Chaohua Sheng, who has more than 16 years of industry experience. Our research and development work is mainly categorized into chip development, product hardware development, product software development, product testing and research in new technology directions. Our research and development team tracks, evaluates and anticipates the latest industry developments and customers' needs in determining our research and development project focus and new product roadmap. We intend to expand our research and development team and continue to enhance our research and development capabilities.

Production

Our Fabless Model

We do not directly manufacture ASIC chips. Instead, we adopt a fabless model, whereby we conduct front-end and back-end designs of our ASIC chips, which are then manufactured, packaged and tested and assembled by a world-class wafer foundry and OSAT partners that we cooperate with. Under the fabless model, we are able to leverage the expertise of industry leaders in areas such as fabrication, quality control and reliability, testing and packaging. In addition, the fabless model allows us to avoid many of the significant costs and risks associated with owning and operating various fabrication and packaging and testing facilities. Our fabrication partner is responsible for procurement of the majority of the raw materials used in the production of our ASIC chips. As a result, we can focus our resources on research and development, product design and additional quality assurances.

Wafer Fabrication

We work with our Foundry Partner, a world's leading semiconductor foundry, which is also our only wafer fabrication partner, to produce wafers for our ASIC chips. We place orders to the Foundry Partner according to our business needs. After we place our orders, and once the Foundry Partner accepts our orders, we are required to prepay in full in order to secure production capacity from the Foundry Partner. It takes an average of approximately four months from the time when we place our order to the delivery of wafers. We started our cooperation with the Foundry Partner in 2018, and we do not maintain any long-term contract or framework agreement. While we continue to seek opportunities to improve our supply chain, we face concentration risks, as we currently depend on one supplier for our wafers. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our ASIC chips business depends mainly on supplies from a single third-party foundry, and any failure to obtain sufficient foundry capacity from this foundry would significantly delay the shipment of our products."

Packaging and Testing

After the wafers are manufactured, they are shipped to an OSAT (outsourced semiconductor assembly and test) company for packaging into ASIC chips, which are then tested to ensure the required quality assurance procedures are all met.

We started our cooperation with ASE Group in 2021, ACCESS in 2018 and Forehope Electronic (Ningbo) Co., Ltd. in 2018. According to our agreements, we typically provide rolling forecasts and firm orders for our packaging and testing partners to purchase necessary materials. We typically settle with our packaging and testing partners on a monthly basis and we are required to pay them within 30 days upon receipt of invoices.

Computing Equipment Assembly

We outsource the assembly of our computing equipment for blockchain applications to third-party contract manufacturers in order to prioritize on the design and development of new ASIC chips offerings. We currently maintain a working relationship with two contract manufacturers for the assembly of our computing equipment. Pursuant to our arrangement, we are responsible for providing overall equipment design, ASIC chips and certain main components and software and the contract manufacturer is responsible for acquiring ancillary hardware and carrying out equipment assembly. The finished computing equipment is delivered directly at their production bases.

Quality Control

We emphasize quality control in all aspects of our operations. From product development, component sourcing to product assembly and delivery, we strictly control the quality of our products and components, to ensure our ASIC chip products meet our stringent internal standards as well as international and industry standards. We also require our fabrication, packaging and testing, and computing equipment production service providers to apply their stringent quality control standards and provide us their quality inspection reports.

Warranty and After Sales Services

We provide a six-month warranty for our ASIC chip products, which we believe is in line with prevailing industry practice. Our warranties cover regular maintenance services and parts and labor for repairs. We accept exchanges of our ASIC chip products only for major defects.

We believe our exchange policy is consistent with relevant PRC laws and regulations governing product quality and consumer rights and interests. We have not received any requests for exchange which individually or in aggregate has had a material adverse effect on our business and financial condition. In addition, as of the date of this annual report, we have not experienced any product recall that adversely impacted our reputation, business operations or financial condition.

Competition

The overall ASIC chips market and related downstream markets, such as computing equipment incorporating ASIC chips, are relatively fragmented, with many ASIC-related products providers focusing on the different end applications and corresponding algorithms of the ASIC chips. However, for certain market segments, the concentration ratio is relatively high. We believe that our competitive advantage over existing and potential competitors lies in our established position as a leading fabless provider of high-performance computing ASIC chips for certain key blockchain algorithms and for blockchain algorithms used by individual end users, innovative technology platform, broad product portfolio tailored to capture market growth potential, close and stable relationships with our major suppliers and visionary and experienced management team as well as talented research and development personnel.

Intellectual Property

We develop and protect our intellectual property portfolio by registering our patents, copyrights, IC layout design rights, utility models, trade secret and confidentiality agreements, non-compete agreements and nondisclosure agreement with our employees and others to protect our proprietary rights. As of the date of annual report, we have registered 28 trademarks (including two in mainland China and 26 outside mainland China) and a total of ten patents in the PRC, including six inventions and four utility model patents. As of the same date, we have registered ten software copyrights and twenty-five IC layout-design rights in the PRC. We rely on patent, trademark, copyright, trade secret protection and confidentiality agreements to safeguard our interests in this respect. Intellectual property rights resulting from the research and development work by our employees belong to us.

Proprietary know-how that is not patentable and proprietary technologies and processes for which patents, IC layout design rights and copyrights are difficult to enforce are also of significant importance to our operations. We rely on trade secret protection and confidentiality agreements to safeguard our interests in this respect. Certain elements in our operations are not covered by patents, IC layout design rights or copyrights. We have taken security measures to protect these elements.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

We have in the past entered and may continue in the future to enter into IP licensing agreements with third parties for the use of their proprietary technologies, primarily IC development tools, in the development of our products. Third parties may initiate litigation against us alleging infringement of their proprietary rights or breach of a licensing agreement or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement or breach of a licensing agreement and our failure or inability to develop non-infringing technology or license the infringed or similar technology or cure the breach on a timely basis, our business could be harmed. Moreover, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry — If we fail to adequately protect our intellectual property rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We may face intellectual property infringement claims or other related disputes, which could be time-consuming, costly to defend or settle and result in the loss of significant rights and lower sales.”

Employees

We had 133 full-time employees as of December 31, 2023. The following table sets forth the numbers of our full-time employees, categorized by function, as of December 31, 2023:

Function	Number of Employees	Percentage of Total Number of Employees
Research and development	99	74.4%
Sales and marketing	17	12.8%
Administration	6	4.5%
Finance and accounting	11	8.3%
Total	133	100.0%

As of December 31, 2023, we did not employ any part-time staff.

We enter into employment contracts with our full-time employees. The remuneration payable to our employees includes fixed salaries, performance-based project bonuses and share-based compensation pursuant to our share incentive plan. We determine employees' remuneration based on factors including years of experience, qualifications and market rate. In order to maintain the quality, knowledge and skills of our employees, we appreciate the importance of training to employees. We provide regular training to our employees, which include orientation training for new employees and continuing on-the-job training for existing employees.

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

Our employees are not covered by any collective bargaining agreement. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes as of the date of this annual report.

Insurance

Besides the government-mandated social insurance and housing provident fund schemes, we do not maintain any insurance covering our properties, equipment, inventory or employees, and we do not carry any business interruption or product liability insurance or any third-party liability insurance to cover claims in respect of personal injuries or any damages arising from accidents on our properties or in relation to our operations. We have obtained and currently maintain the relevant directors and officers liability policies for our directors and executive officers since our initial public offering in March 2023. We believe that our insurance coverage is in line with industry practice. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our insurance coverage is limited and may not be adequate to cover potential losses and liabilities. A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition."

Environmental Matters

We are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under PRC environmental laws and regulations. Due to the nature of our operations, the waste we produce is not hazardous and has minimal impact on the environment.

Our operations are subject to regulation and periodic monitoring by local environmental authorities. If we fail to comply with present or future laws and regulations, we could be subject to fines, suspension of production or cessation of operations.

Regulation

Regulations and Government Policies Relating to the IC Industries and Blockchain Industries

Regulations and Government Policies Relating to the IC Industries

As demonstrated by The Circular of the State Council on Printing and Distributing Policies for Encouraging the Development of the Software Industry and the Integrated Circuit Industry issued on June 24, 2000, the PRC continues to enact policies encouraging new and advanced technology and supporting the software and IC industries.

On January 28, 2011, the State Council issued the Circular of the State Council on Printing and Distributing Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry, which aims to formulate a series of policies for the purposes of further optimizing development environment for the software industry and integrated circuit industry, increasing the quality and the level of industry development and cultivating a number of influential and strong leading enterprises in these industries. This circular addresses topic including fiscal tax policies, investment and financing policies, research and development policies, import and export policies, talent policies, intellectual property policies and market policies.

On June 24, 2014, the MIIT, the NDRC, the Ministry of Science and Technology of the PRC and the Ministry of Finance of the PRC issued the Outline for Promoting the Development of the National Integrated Circuit Industry, which highlights those great efforts shall be put on the development of the IC design industry. By focusing on the industrial chain of key areas and strengthening IC design, software development, system integration, collaborative innovation in contents and services, the goal is to drive the development of the manufacturing industry through the rapid growth of the design industry.

On June 8, 2015, the NDRC issued the Notice on Implementing Major Engineering Packages in Emerging Industries. The Notice highlights the efforts in developing IC construction infrastructures, focusing on enhancing the level of advanced technology, design industry concentration ratio and industrial chain supporting ability, selecting areas with more mature technology, good industrial base and wide application potential, and accelerating the industrialization of high-performance IC products.

On November 7, 2018, the State Statistical Bureau issued the Classification of Strategic Emerging Industries, which lists IC design as a national strategic new industry.

On July 27, 2020, the State Council issued Several Policies for Promoting the High-quality Development of the Integrated Circuit Industry and the Software Industry in the New Era, which highlights the IC industry and software industry as the core of the information industry, and provides further policy support in terms of finance and taxation, investment and financing, research and development, import and export, talents, intellectual property rights, market and international cooperation for IC industries.

On March 12, 2021, NPC adopted Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035, IC industries continue to be listed as one of the eight major pioneering and strategic national projects that the State has clearly developed.

Regulations and Government Policies Relating to the IC Industries and Blockchain Industries

On December 15, 2016, the State Council issued the Notice of the 13th Five-Year Plan for National Informatization. This notice highlights the need to strengthen the layout of strategic innovative technologies, including blockchain technology, as well as others such as enhanced quantum communications, future networks, brain-like computing, artificial intelligence, holographic display, virtual display, big data cognitive analysis, new nonvolatile storage, driverless vehicles and gene editing.

On July 8, 2017, the State Council issued the Notice on Issuing New Generation AI Development Plan. This notice points out that advancing the integration of blockchain technology and artificial intelligence and establishing a new social credit system will significantly minimize the cost and risk of interpersonal communications.

On October 5, 2017, the General Office of the State Council issued the Guiding Opinions on Actively Promoting Supply Chain Innovation and Application, which highlights and promotes the research of using emerging technologies such as blockchain and artificial intelligence to establish a credit evaluation mechanism based on supply chain.

Pursuant to the Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035, the blockchain industry is one of the key industries in the digital economy. and technological innovation in blockchain such as smart contracts, consensus algorithms, cryptographic algorithms and distributed systems will be further promoted.

On May 27, 2021, the MIIT and the Office of the Central Cyberspace Affairs Commission issued the Guiding Opinions on Accelerating the Application of Blockchain Technology and the Development of the Industry, which points out efforts should be made to promote the integrated development of blockchain and the internet, big data, artificial intelligence and other new-generation information technologies, and build an advanced blockchain industry system.

On November 1, 2021, the MIIT issued the “14th Five-Year Plan” Development Plan for the Information and Communication Industry. This notice makes it a priority for future development to significantly increase the level of computing power and significantly enhance the service capacity of facilities such as artificial intelligence and blockchain.

The promulgation and implementation of abovementioned policies and regulations have provided the IC industries and Blockchain Industries with financial, tax, technical and talent support, promoted the development of the IC industries and Blockchain Industries and created a good operational environment for our business.

Regulations and Government Policies Relating to Cryptocurrency

Pursuant to the Circular on Prevention of Risks Associated with Bitcoin jointly promulgated by the PBOC, the MIIT, the China Banking Regulatory Commission, the CSRC and the China Insurance Regulatory Commission on December 3, 2013, Bitcoin shall be considered a kind of virtual commodity in nature, which does not have the same legal status with fiat currencies and shall not be used and circulated in the market as currency. This circular also provides that financial institutions and payment institutions shall not engage in businesses related to Bitcoin.

Pursuant to the Announcement on Prevention of Risks from Offering and Financing of Cryptocurrencies promulgated by seven PRC governmental authorities including the PBOC on September 4, 2017, and Guarding against the Speculative Risks of Cryptocurrency Trading promulgated by the National Internet Finance Association of China, the China Banking Association; and the Payment & Clearing Association of China on May 18, 2021, illegal activities in offering and financing of cryptocurrencies, including initial coin offerings (ICOs), are forbidden in the PRC because such activities may be considered to constitute illegal offering of securities or illegal fundraising. Furthermore, financial institutions and payment institutions shall not engage in businesses related to cryptocurrency offering or financing transactions.

Pursuant to the Circular of the Regulating Cryptocurrency Mining Activities promulgated by eleven PRC governmental authorities including the PBOC on September 3, 2021, which aims to dispose of the “hidden risks” in cryptocurrency mining as it pursues China’s carbon-neutrality goals, and cryptocurrency mining is to be classified as a phased-out industry. This circular does not outlaw cryptocurrency mining completely, rather it orders local authorities to clamp down on illegal mining activities with plans to gradually phase out the industry. Investing in and constructing new mining projects will not be allowed and the existing mining projects will be given time to exit, and the entire industrial chain of the upstream and downstream of cryptocurrency mining activities will be tighten regulated.

On September 15, 2021, ten PRC governmental authorities including the PBOC issued the Notice on Further Preventing and Disposing of Risks in Cryptocurrency Trading and Speculation. This notice reiterates that cryptocurrencies do not have the same legal status as legal currencies, and emphasizes that certain cryptocurrency-related businesses are illegal financing activities, such as conducting exchanges between legal currencies and cryptocurrencies, or between cryptocurrencies, buying and selling cryptocurrencies as a central counterparty, providing information intermediary and pricing services for cryptocurrency transactions, token issuance and financing, and cryptocurrencies derivatives transactions. Cryptocurrency exchanges providing services to domestic residents are also illegal financial activities, and the relevant domestic staffs and subjects providing the services of marketing and promotion, payment and settlement, and technical support for them will be investigated for knowingly participating in the cryptocurrency industry.

On March 12, 2022, the NDRC published the Market Access Negative List (2022 Edition), which lists the virtual currency mining activities as the “backward production processes and equipment” under the eliminated item in the Catalogue for Guiding Industrial Restructuring. According to such list, market entities are prohibited from investing in eliminated items. The above regulations and policies may result in no customers in the PRC buying our products. The policies and regulations relating to the cryptocurrency industry do not have a direct impact on the Company, because the Company does not engage in any of the above described activities. However they could have an impact on the Company’s customers in the PRC, which could indirectly impact the demand for the Company’s productions.

Laws and Regulations Relating to Other Business Areas

Foreign Exchange

Pursuant to the Administrative Regulations of the PRC on Foreign Exchange promulgated by the State Council on January 29, 1996 and amended on August 1, 2008 with effect from August 5, 2008, and various regulations issued by SAFE, and other PRC regulatory agencies, foreign currency could be exchanged or paid through two different accounts, namely current account and capital account. Payment of current account items, including commodity, trade and service-related foreign exchange transactions and other current payment, may be made by conversion between RMB and foreign currencies without approval of SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with SAFE or its local branch for conversion between RMB and the foreign currency, and remittance of the foreign currency outside the PRC.

Pursuant to the Notice on Administration of Foreign Exchange Involved in Offshore Investment, Financing and Round-Trip Investment Conducted by Domestic Residents Through Special Purpose Vehicles, which was promulgated by SAFE and went into effect on July 4, 2014, prior to making capital contribution in a special purpose vehicle by a PRC resident using its legitimate assets or interests in the PRC or overseas, the PRC resident shall apply to the foreign exchange bureau for completion of foreign exchange registration formalities for overseas investments. A “domestic entity” referred to in this notice shall mean enterprise and institutional legal persons and any other economic organizations established in the PRC pursuant to the law; a “PRC resident individual” shall mean a PRC citizen holding a PRC resident identity document, military personnel identity document or armed police personnel identity document, and any foreign individual who does not hold a PRC identity document but normally resides in the PRC due to economic reasons.

Pursuant to the Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies for Direct Investment, promulgated by SAFE on February 13, 2015 and effective June 1, 2015, two administrative approval matters, including foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, shall be reviewed and processed directly by banks. SAFE and its local bureaus shall implement indirect supervision through the foreign exchange registration with banks for direct investment.

Pursuant to the Notice of SAFE on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Investment Enterprises promulgated on March 30, 2015 and effective June 1, 2015, and the Notice of SAFE on Reforming and Regulating the Policies for Administration of Foreign Exchange Settlement under the Capital Account promulgated on and effective June 9, 2016, the system of voluntary foreign exchange settlement is implemented for the foreign exchange earnings of foreign exchange capital of foreign-invested enterprises. Foreign exchange capital in a foreign-invested enterprise capital account, for which the monetary contribution has been confirmed by SAFE (or for which the monetary contribution has been registered for account entry), may be settled at a bank as required by the actual management needs of the enterprise. The voluntary settlement ratio of foreign-invested enterprise foreign exchange capital projects has been temporarily set at 100%. SAFE may make adjustments to the said ratio at appropriate times based on the status of the international balance of payments. In addition, foreign exchange earnings under capital projects and the RMB funds obtained from the exchange settlements thereof shall not be used by foreign-invested enterprises for the following purposes: (1) direct or indirect payments of expenditures exceeding its business scope or those being prohibited by the laws and regulations of the PRC; (2) direct or indirect uses in securities investments or investments other than capital-protected banking products (except as otherwise expressly provided); (3) issuance of loans to non-affiliated enterprises (excluding those that are expressly permitted within their business scope); and (4) construction or purchase of real estate not for personal use (except for real estate enterprises).

Foreign Investment

In March 2019, the Standing Committee of the National People’s Congress of the PRC passed the Foreign Investment Law of the People’s Republic of China, or the Foreign Investment Law. Among other things, the Foreign Investment Law defines the “foreign investment” as the investment activities in China conducted by foreign individuals, enterprises and other organizations, or the Foreign Investors, in a direct or indirect manner. The PRC governmental authorities will administrate foreign investment by applying the principal of pre-entry national treatment together with a negative list, to be specific, the Foreign Investors are prohibited from making any investments in the fields cataloged into prohibited industries for foreign investment based on the negative list, while they are allowed to make investments in the restricted industries provided that all the requirements and conditions as set forth in the negative list have been satisfied; when the Foreign Investors make investments in the fields other than those included in the negative list, the national treatment principle shall apply.

Pursuant to Provisions for Guiding the Foreign Investment Direction, projects with foreign investment fall into 4 categories, namely encouraged, permitted, restricted and prohibited. Projects with foreign investment that are encouraged, restricted or prohibited shall be listed in the Foreign Investment Catalog. Projects with foreign investment not listed as encouraged, restricted or prohibited projects are permitted projects.

Pursuant to the Special Administrative Measures for Access of Foreign Investment (2021 Edition), or the 2021 Edition Negative list, issued by the MOFCOM and the NDRC on December 27, 2021, which came into effect on January 1, 2022. Our business does not fall into the negative list and is permitted for foreign investment.

The Foreign Investment Law replaced the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises. It stipulates that the PRC implements a system of pre-establishment national treatment plus negative list for the administration of foreign investment. Foreign investors are not allowed to invest in fields or sectors prohibited in the market access negative list for foreign investment. Foreign investors that intend to invest in the fields subject to access restrictions stipulated in the market access negative list for foreign investment shall be required to satisfy the conditions stipulated in such negative list. The PRC policies supporting enterprise development are equally applicable to foreign-invested enterprises. The PRC does not impose expropriation on foreign investment. Under special circumstances, if it requires imposing expropriation on foreign investment due to the need of public interest, expropriation shall be imposed according to legal procedures, and the foreign-invested enterprises concerned shall receive fair and reasonable compensation. Foreign-invested enterprises can raise funds through public issuance of stocks, corporate bonds and other securities in accordance with the law. Overall, The Foreign Investment Law establishes the clear principle of applying national treatment to FIEs except those engaged in industries on the 2021 Negative List. Since our current and planned business is not on the 2021 Negative List, to the best of our knowledge, it will not create any material adverse effect to our Company’s business.

Outbound Investment

Pursuant to the Measures for Administration of Overseas Investment Management promulgated by the MOFCOM on September 6, 2014 and effective October 6, 2014 and the Measures for Administration of Overseas Investment of Enterprises promulgated by the NDRC on December 26, 2017 and effective March 1, 2018, a domestic institution is required to undergo relevant procedures for offshore investment prior to its overseas direct investment and obtain relevant record-filing, approval, certificate or permit. If an enterprise fails to complete the aforesaid procedures, it will be required by the competent authorities to suspend or cease the implementation of the project.

In the past, we have established an overseas subsidiary but failed to complete overseas investment record-filing formalities. Considering we no longer hold any equity interest in the aforesaid subsidiary, our risk of incurring relative legal liabilities would be low.

Regulations on Import and Export of Goods

Pursuant to the Foreign Trade Law of the PRC promulgated by the Standing Committee of the NPC on May 12, 1994 and last amended on November 7, 2016, foreign trade dealers who are engaged in the import or export of goods or technologies shall register with the competent authority responsible for foreign trade under the State Council or its authorized bodies unless such registration is not required under the laws, administrative regulations and the provisions of the competent department of foreign trade under the State Council. Where a foreign trade dealer fails to register as required, the customs will not process the procedures of declaration and clearance of the imported or exported goods.

Pursuant to the Customs Law of the PRC promulgated by the Standing Committee of the NPC on January 22, 1987 and last amended on April 29, 2021, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

Laws and Regulations Relating to Taxation

Enterprise Income Tax

Pursuant to the EIT Law promulgated on March 16, 2007, amended on and effective December 29, 2018, and the Regulation on Implementation of the Enterprise Income Tax Law of the PRC, or the EIT Implementation Rules, issued on December 6, 2007 and effective April 23, 2019, EIT shall be applicable at a uniform rate of 25% to all resident or non-resident enterprises. EIT shall be payable by a resident enterprise for income sourced within or outside the PRC. EIT shall be payable by a non-resident enterprise, for income sourced within the PRC by its institutions or premises established in the PRC, and for income sourced outside the PRC for which the institutions or premises established in the PRC have a de facto relationship. Where the non-resident enterprise has no institutions or premises established in the PRC or has income bearing no de facto relationship with the institution or premises established, EIT shall be payable by the non-resident enterprise only for income sourced within the PRC.

Pursuant to the Administrative Measures on the Accreditation of High and New Technology Enterprises, high and new technology enterprises accredited pursuant to these measures may make declarations under and benefit from tax concession policies in accordance with relevant regulations including the EIT Law and the EIT Implementation Rules, the Law of the PRC on Administration of Levying and Collection of Taxes and the Regulation of Implementation of the Law of the PRC on Administration of Levying and Collection of Taxes.

Pursuant to the Announcement on the Enterprise Income Tax Policies for Promoting the High-quality Development of the Integrated Circuit Industry and the Software Industry promulgated by the Ministry of Finance, the State Taxation Administration, the NDRC and the MIIT on December 12, 2020 and effective from January 1, 2020, and the Announcement No. 9 [2021] of the MIIT, the NDRC, the Ministry of Finance and the State Taxation Administration, upon certification, an integrated circuit design, equipment, materials, packaging, or testing enterprise or a software enterprise shall be exempt from the EIT from the first to the second year from the year when such enterprise makes profits, and be subject to the EIT levied at half of the 25% statutory tax rate from the third to the fifth year.

Value-Added Tax

Pursuant to the Provisional Regulation on Value-Added Tax of the PRC promulgated by the State Council, as amended on November 5, 2008, February 6, 2016 and November 19, 2017 and effective November 19, 2017, all entities and individuals in the PRC engaging in the sales of goods, provision of processing services, repairs and replacement services, sales services, intangible assets, real estate and the importation of goods are required to pay value added tax, or VAT. Unless otherwise stated, the rate of VAT shall be 17%.

Pursuant to the Notice on Value-Added Tax Policies of Software Products a general taxpayer who sells self-developed software products and subject to VAT at a rate of over 3% may, after being taxed at the fixed tax rate of 17%, receive a VAT refund.

According to the Circular of the SAT, on Adjusting Value-added Tax Rates, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are lowered to 16% and 10% respectively.

According to the Circular on Policies to Deepen Value-added Tax Reform, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 16% and 10% tax rates are lowered to 13% and 9% respectively.

Tax on Dividends

Pursuant to the EIT Law and the EIT Implementation Rules, except as otherwise provided by relevant tax treaties with the PRC government, dividends paid by foreign-invested investment enterprises to foreign investors which are non-resident enterprises and which have not established or operated premises in the PRC, or which have established or operated premises but where their income has no de facto relationship with such establishment or operation of premises shall be subject to a withholding tax of 10%.

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income entered into between the PRC government and the Hong Kong Special Administrative Region, where the beneficial owner is a company directly holding at least 25% of the equity interest of the company paying the dividends, the tax charged shall not exceed 5% of the distributed dividends. In any other case, the tax charged shall not exceed 10% of the distributed dividends.

Pursuant to the Announcement on Issues Relating to “Beneficial Owner” in Tax Treaties promulgated by the SAT on February 3, 2018 and came effective April 1, 2018, a “beneficial owner” shall mean a person who has ownership and control over the income, and the rights and property from which the income is derived. Upon the determination of the “beneficial owner” status of a resident of the treaty counterparty who needs to enjoy the tax treaty benefits (hereinafter referred to as the “applicant”), a comprehensive analysis shall be conducted taking into account the actual conditions of the specific case. In general, the following factors are unfavorable for the determination of “beneficial owner” status of an applicant: (1) the applicant is obligated to pay 50% or more of the income, within 12 months from its receipt, to a resident of a third country (region), where the term “obligated” includes agreed obligations and de facto payment for which there is no agreed obligation; (2) the business activities undertaken by the applicant do not constitute substantive business activities, where substantive business activities shall include manufacturing, distribution and management activities of a substantive nature, the determination of whether the business activities undertaken by the applicant are of a substantive nature shall be based on the functions actually performed and the risks borne, and investment holding management activities of a substantive nature undertaken by the applicant may constitute substantive business activities (where the applicant undertakes investment holding management activities which do not constitute substantive business activities, and simultaneously undertakes other business activities, if such other business activities are not sufficiently significant, these shall not constitute substantive business activities); (3) the treaty counterparty country (region) does not levy, or exempts tax on the relevant income, or levies tax but with a very low actual tax rate; (4) in addition to the loan contract based on which interest is derived and paid, there exists other loans or deposit contracts between the creditor and the third party, of which factors such as the amount, interest rate and date of execution are similar; and (5) in addition to the transfer contract for rights to use such as copyright, patent, technology, from which the royalties are derived and paid, there exists other transfer contracts for rights to use or ownership in relation to copyright, patent, technology between the applicant and a third party.

Pursuant to the Notice of the SAT on the Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties promulgated by the SAT and effective February 20, 2009, all of the following conditions shall be satisfied before the concession tax rate in a tax treaty can be enjoyed: (1) the tax resident obtaining dividends shall be restricted to the company as provided in the tax treaty; (2) among all the ownership equity interests and voting shares of the PRC resident company, the proportion directly owned by the tax resident complies with the prescribed proportions under the tax treaty; and (3) the proportion of the equity interests of the PRC resident company directly owned by such tax resident complies with, at all times within the twelve months before obtaining the dividends, the proportions specified in the tax treaty.

Pursuant to the Announcement of the State Taxation Administration on Issuing the Administrative Measures for Entitlement to Treaty Benefits for Non-resident Taxpayers promulgated by the SAT on October 14, 2019 and effective January 1, 2020, entitlement to treaty benefits for non-resident taxpayers shall be handled by means of “self-judgment of eligibility, declaration of entitlement, and retention of relevant materials for future reference”. Where non-resident taxpayers judge by themselves that they meet the conditions for entitlement to treaty benefits, they may obtain such entitlement themselves at the time of making tax declarations, or at the time of making withholding declarations via withholding agents. At the same time, they shall collect, gather and retain relevant materials for future reference in accordance with the provisions of these measures, and shall accept the follow-up administration of tax authorities. Relevant information proving the status of “beneficial owner” shall be retained in the case of entitlement to dividends, interest and treaty benefits of royalty clauses.

Laws and Regulations Relating to Labor and Social Security

Pursuant to the Labor Law of the PRC promulgated on July 5, 1994 and amended on and effective December 29, 2018, companies must negotiate and enter into employment contracts with their employees based on the principle of fairness. Companies must establish and strengthen an employment hygiene system, strictly implement the national labor safety and health rules and standards, deliver occupational health and safety education to employees, prevent work-related accidents, and reduce occupational hazards. In addition, employers and employees shall purchase social insurances and pay for social insurance fees in compliance with applicable PRC laws.

Labor Contracts

The Labor Contract Law of the PRC, which was promulgated on June 29, 2007 and subsequently amended on December 28, 2012 and effective July 1, 2013, serves as the primary law regulating the labor contract relationship between companies and employees. Pursuant to this law, an employment relationship is established between the employer and the worker since the day of employment. The employer shall execute a written employment contract with the worker. Furthermore, to safeguard the legal rights and interests of workers, the way to calculate compensation for the probation period and for damages shall be subject to the provisions of the law.

Social Security and Housing Provident Fund

Pursuant to the Interim Regulations on Levying Social Insurance Premiums promulgated on January 22, 1999 and amended on March 24, 2019, Decisions of the State Council on Modifying the Basic Endowment Insurance System for Enterprise Employees promulgated on December 3, 2005, Decision on Establishment of Basic Medical System for Urban Employee issued by State Council with effect from December 14, 1998, the Regulations on Unemployment Insurance effective from January 22, 1999, Regulations on Work-Related Injury Insurance promulgated on April 27, 2003 with effect from January 1, 2004, and as amended on December 20, 2010, and the Interim Measures concerning the Maternity Insurance for Enterprise Employees promulgated on December 14, 1994 with effect from January 1, 1995, employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance.

Pursuant to the Social Insurance Law of the PRC, which became effective on July 1, 2011 with last amendment on December 29, 2018, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions. Except for mandatory exceptions such as force majeure, social insurance premiums may not be paid late, reduced, or be exempted. Where an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agencies shall order it to make all or outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to 1—3 times the overdue amount.

Pursuant to the Administrative Regulations on the Housing Provident Fund effective from April 3, 1999, amended on March 24, 2002 and March 24, 2019, enterprises are required to register with the competent administrative centers of housing provident fund and open bank accounts for housing provident funds for their employees. Employers are also required to timely pay all housing fund contributions for their employees. Where an employer fails to submit and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will subject the employer to a fine of not less than RMB10,000 and up to RMB50,000. When an employer fails to pay housing provident fund due in full and in time, housing provident fund center is entitled to order it to rectify, failing to do so would result in enforcement exerted by the court.

Laws and Regulations Relating to Intellectual Property

Trademarks

Pursuant to the Trademark Law of the PRC promulgated on August 23, 1982, amended on April 23, 2019 and effective November 1, 2019 and the Regulation on Implementation of the Trademark Law of the PRC amended on April 29, 2014 and effective May 1, 2014, the right to the exclusive use of a registered trademark is limited to the approved trademark registration, and to goods for which the use of the trademark has been approved. The period of validity of registered trademarks lasts for ten years from the day of registration approval. Absent the authorization by the owner of the registered trademark, the use of the registered trademark or a similar trademark on the same category of goods or similar goods constitutes an infringement of the right to exclusive use of the registered trademark. The infringer shall, in accordance with the relevant regulations, cease the infringement activities, take correction actions, and compensate for losses.

Patents

Pursuant to the Patent Law of the PRC promulgated on March 12, 1984, last amended on October 17, 2020 and effective June 1, 2021, and the Rules for the Implementation of the Patent Law of the PRC last amended on December 11, 2023 and effective January 20, 2023, after the grant of the patent right for inventions and utility models, except otherwise regulated under the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit such patent, that is to manufacture, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import products directly obtained from such patented process, for production or business purposes. After the patent right is granted for a design, no unit or individual shall, without the authorization of the patent owner, exploit such patent, that is to manufacture, offer to sell, sell, or import any product containing such patented design for production or business purposes. Where infringement has been established, the infringer shall, in accordance with the relevant regulations, be ordered to cease the infringement activities, take corrective actions, and compensate for losses.

Copyrights

Pursuant to the Copyright Law of the PRC promulgated on September 7, 1990, last amended on November 11, 2020 and effective June 1, 2021, works of PRC citizens, legal persons or other organizations shall, regardless of whether they have been published, be entitled to the copyright pursuant to this law. Works include written works; oral works; musical, dramatic, opera, dance, acrobatic and artistic works; visual arts, architectural works; photographic works; film works and works created using methods similar to filmmaking; graphical works and modeling works such as engineering design graphs, product design graphs, maps and schematic diagrams; computer software; and other works stipulated by legal and administrative regulations.

Pursuant to the Regulation on Protection of Computer Software promulgated on December 20, 2001, last amended on January 30, 2013 and effective date on March 1, 2013, software copyright is conferred on the software development completion date. The protection period for a software copyright of a legal person or other organizations lasts for 50 years, concluding on the day of December 31 in the 50th year after the initial release of the software. However, in the case where the software has not been released within 50 years from its development completion date, protection shall no longer be offered by these regulations. A software copyright holder may register with competent software registration authority under the State Council Copyright Administrative Department. Registration certification documents issued by the competent software registration authority serve as the prima facie proof of such registration.

IC Layout Designs

Pursuant to the Regulation on the Protection of Integrated Circuit Layout Designs promulgated on April 2, 2001 and implemented on October 1, 2001, and the Protection of Integrated Circuit Layout Designs Regulations Implementing Rules promulgated on September 18, 2001 and effective October 1, 2001, layout design proprietary right holders enjoy the following proprietary rights: to duplicate the whole or any part of the protected layout designs that is original; to make commercial use of the protected layout designs, ICs containing such layout designs, or items containing such ICs.

Regulations in relation to M&A Rules and Overseas Listing

Accordance with the M&A Rules which was promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the State Administration for Industry and Commerce, the CSRC and SAFE and took effect on September 8, 2006 and was subsequently amended on June 22, 2009 by the MOFCOM, a foreign investor was required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchase and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required. According to the Manual of Guidance on Administration for Foreign Investment Access issued by MOFOM on December 18, 2008, the equity transfer by the Chinese shareholders to the foreign shareholders in an established foreign-invested enterprise shall not be governed by the provisions on mergers and acquisitions. It does not matter whether the Chinese party and the foreign party are related parties or whether the foreign party is an existing shareholder or a new investor.

As prior to the acquisition of all the equities of Shanghai Intchains by Jerryken Intelligent Technology (Shanghai) Co., Ltd., Shanghai Intchains was a sino-foreign equity joint venture and did not belong to “domestic companies” based on M&A Rules. Therefore, the M&A Rules does not apply to the acquisition of all the equities of Shanghai Intchains by Jerryken Intelligent Technology (Shanghai) Co., Ltd. and no approval from the CSRC is needed.

On July 6, 2021, the State Council and General Office of the of the Communist Party China Central Committee issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law, which steps-up scrutiny of overseas listings by companies and calls for strengthening cooperation in cross-border regulation, improving relevant laws and regulations on cyber security, cross-border data transmission and confidential information management, including the confidentiality requirement and file management related to the issuance and listing of securities overseas, enforcing the primary responsibility of the enterprises for information security of China based overseas listed companies and promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. Furthermore, establishing and improving a system of extraterritorial application of laws in the capital market are also mentioned, judicial interpretations and supporting rules for extraterritorial application provisions of the Securities Law shall be formulated as soon as possible.

On February 17, 2023, with the approval of the State Council, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, and five supporting guidelines, which has come into effect on March 31, 2023. Pursuant to the Trial Measures, (1) domestic companies that seek to offer or list securities overseas, both directly and indirectly, shall complete filing procedures with the CSRC pursuant to the requirements of the Trial Measures within three working days following its submission of initial public offerings or listing application. If a domestic company fails to complete required filing procedures or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (2) if the issuer meets both of the following criteria, the overseas offering and listing conducted by such issuer shall be deemed as indirect overseas offering and listing by a PRC domestic company: (i) 50% or more of any of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year were derived from PRC domestic companies; and (ii) the majority of the issuer’s business activities are carried out in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management team in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China; and (3) where PRC domestic companies seeking indirect overseas offering and listing in an overseas market, the issuer shall designate a major domestic operating entity responsible for all filing procedures with the CSRC, and where an issuer makes an application for initial public offerings or listings in an overseas market, the issuer shall submit filings with the CSRC within three business days after such application is submitted.

On the same day, the CSRC also held a press conference for the release of the Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarified that (1) domestic companies that have submitted valid applications for their indirect overseas offering and listing prior to the effective date of the Trial Measures, March 31, 2023, but have not yet obtained approval from overseas regulatory authorities or stock exchanges, are allowed to reasonably arrange the timing for submitting their filing applications with the CSRC, and must complete the filing before the completion of their overseas offering and listing; (2) domestic companies that have obtained approval from overseas regulatory authorities or stock exchanges for their indirect overseas offering and listing prior to the effective date of the Trial Measures but have not yet completed their indirect overseas listing, are granted a six-month transition period from March 31, 2023. If these domestic companies fail to complete their indirect overseas offering and listing within such six-month transition period, they will be required to make filings with the CSRC pursuant to the Trial Measures; and (3) the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies seeking listing with contractual arrangements if they duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources.

On February 24, 2023, the CSRC, together with Ministry of Finance of the PRC, National Administration of State Secrets Protection and National Archives Administration of China, revised the Provisions on Strengthening Confidentiality and Archives Administration for Overseas Securities Offering and Listing which was issued by the CSRC, National Administration of State Secrets Protection and National Archives Administration of China in 2009, or the Provisions. The revised Provisions is issued under the title the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, and has come into effect on March 31, 2023 together with the Trial Measures. One of the major revisions to the revised Provisions is expanding its application to cover indirect overseas offering and listing, as is consistent with the Trial Measures. The revised Provisions require that, including but not limited to (a) a domestic company that plans to, either directly or indirectly through its overseas listed entity, publicly disclose or provide to relevant individuals or entities including securities companies, securities service providers and overseas regulators, any documents and materials that contain state secrets or working secrets of government agencies, shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level; and (b) domestic company that plans to, either directly or indirectly through its overseas listed entity, publicly disclose or provide to relevant individuals and entities including securities companies, securities service providers and overseas regulators, any other documents and materials that, if leaked, will be detrimental to national security or public interest, shall strictly fulfill relevant procedures stipulated by applicable national regulations. On or after March 31, 2023, any failure or perceived failure by the Company or PRC subsidiaries to comply with the above confidentiality and archives administration requirements under the revised Provisions and other PRC laws and regulations may result in that the relevant entities would be held legally liable by competent authorities, and referred to the judicial organ to be investigated for criminal liability if suspected of committing a crime.

Regulations Relating to Dividend Distributions

According to the PRC Company Law and Foreign Investment Law, each of our PRC subsidiaries, as a foreign invested enterprise, or FIE, is required to draw 10% of its after-tax profits each year, if any, to fund a common reserve, and which may stop drawing its after-tax profits if the aggregate balance of the common reserve has already accounted for over 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, under the EIT Law, which became effective in January 2008, the maximum tax rate for the withholding tax imposed on dividend payments from PRC foreign investing companies to their overseas investors that are not regarded as “resident” for tax purposes is 20%. The rate was reduced to 10% under the Implementing Regulations for the EIT Law issued by the State Council. However, a lower withholding tax rate might be applied if there is a tax treaty between China and the jurisdiction of the foreign holding companies, such as tax rate of 5% in the case of Hong Kong companies that holds at least 25% of the equity interests in the foreign-invested enterprise, and certain requirements specified by PRC tax authorities are satisfied.

Pursuant to the Notice on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control promulgated by SAFE in January 2017, which stipulates several capital control measures with respect to outbound remittance of profits from domestic entities to offshore entities, including the following: (1) under the principle of genuine transaction, banks shall check board resolutions regarding profit distributions, the original version of tax filing records and audited financial statements; and (2) domestic entities shall hold income to account for previous years’ losses before remitting the profits. Moreover, domestic entities shall make detailed explanations of sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

Regulations in relation to Cyber Security and Data Protection

On November 7, 2016, the Standing Committee of the National People’s Congress (the “SCNPC”) promulgated the Cyber Security Law of the PRC, or Cyber Security Law, which became effective on June 1, 2017. The Cyber Security Law requires network operators to perform certain functions related to cyber security protection and strengthen the network information management. On June 10, 2021, the SCNPC promulgated the Data Security Law of the PRC, or the PRC Data Security Law, which became effective on September 1, 2021. Pursuant to the PRC Data Security Law, data refers to any record of information in electronic or any other form and data processing including the collection, storage, use, processing, transmission, provision, and public disclosure of data.

On December 28, 2021, the Cyberspace Administration of China, or the CAC, jointly with other twelve PRC governmental authorities, promulgated the Measures for Cybersecurity Review, or Cybersecurity Measures, which became effective on February 15, 2022. the Cybersecurity Measures provides that, among other things, (i) online platform operators possessing personal information of more than one million users must apply to the Cybersecurity Review Office for a cybersecurity review before conducting any listing in a foreign country, (ii) the purchase of network products and services of a critical information infrastructure operator and data processing activities of an online platform operator that affect or may affect national security shall be subject to the cybersecurity review, and (iii) the relevant governmental authorities in the PRC may initiate cyber security review if such governmental authorities determine any network products and services and data processing activities affect or may affect national security.

On November 14, 2021, the CAC promulgated the Regulations on the Administration of Cyber Data Security (Draft for Comments), or Draft Cyber Data Regulations. In accordance with relevant PRC regulations, apply for cybersecurity review when carrying out the following activities: (i) the merger, reorganization or separation of online platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (ii) processing personal information of more than one million individuals and seeking a listing in a foreign country; (iii) applying for listing in Hong Kong, which affects or may affect national security; and (iv) other data processing activities that affect or may affect national security. As at the date of this annual report, the Draft Cyber Data Regulations are still in draft form and subject to change with substantially uncertainty.

C. Organizational Structure

For an organizational structure of the Company and its subsidiaries and a detailed description of the Company's significant subsidiaries, see "Item 3. Key Information—Our Corporate Structure."

D. Property, Plant and Equipment

Our principal executive offices are located at Building 16, Lane 999, Xinyuan South Road, Lin-Gang Special Area, Pudong, Shanghai, 201306, the People's Republic of China. As of December 31, 2023, we occupied two properties in Shanghai, China, for research and development and office purposes, with a total gross floor area of approximately 3,935.32 square meters. Out of these properties, one were leased by us, with an aggregate gross floor area of approximately 1,318.27 square meters, and one property with a total gross floor area of approximately 2,617.05 square meters was acquired by us in June 2023

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

Our Business

We are a provider of integrated solutions of high-performance computing ASIC chip products for blockchain applications. We have a fabless business model and specialize in the front-end and back-end of IC design, which are the major components of the IC product development chain. We have strong supply chain management through our well-established business partnership with a leading foundry, which helps to ensure our product quality and stable production output.

Our products primarily include high-performance computing ASIC chip products consisting of ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. We have built a proprietary technology platform named "Xihe" Platform, which allows us to develop a wide range of ASIC chips with high efficiency and scalability. We design our ASIC chips in-house, which enables us to leverage proprietary silicon data to deliver products reflecting the latest technological developments ahead of our competitors. As of December 31, 2023, we had completed a total of nine tape-outs using our "Xihe" Platform for 22nm and 12nm ASIC chips, achieving a 100% success rate for all our tape-outs.

The blockchain industry experienced challenges in 2023 and uncertainties in the market had negatively impacted our business performance. Our total revenue decreased from RMB631.8 million in 2021 to RMB473.7 million in 2022 and further decreased to RMB82.2 million (US\$11.6 million) in 2023. Our net income decreased from RMB450.1 million in 2021 to RMB355.2 million in 2022. We recorded a net loss of RMB26.8 million (US\$3.8 million) in 2023.

Despite these challenges, we maintain our confidence in our business strategy and long-term prospects, particularly as the broad market has shown signs of recovery in the fourth quarter of 2023. Our strong commitment to advanced research and development enables us to continuously innovate and create ASIC chips with superior performance to power ratio at reasonable cost. Our latest ASIC chip, designed and manufactured using a 12nm process node, completed the relevant IC verification and trial production processes in February 2024 and is set to enter mass production in March 2024. In addition, we initiated our business expansion in Singapore in 2023 by dispatching members of senior management to station in Singapore and entering dialogues with potential local distributors for cooperation. In December 2023, we entered into an asset acquisition agreement with a Singapore-based company to purchase certain assets used in the operation of its Goldshell WEB3 infrastructure brand with the aim of enabling us to enter the downstream production and sales sector across computing equipment for blockchain applications and other WEB3 infrastructure-related hardware and software products. We completed such acquisition in February 2024.

Major Factors Affecting Our Results of Operations

In addition to the general factors affecting the Chinese and global economy and our industry, our results of operations and financial condition are affected by a number of industry- and company-specific factors, including those set out below:

Expected economic returns on cryptocurrency mining activities and fluctuation of cryptocurrency price

Our revenue primarily consists of proceeds of sales of ASIC chip products, which are, in general, determined by the demand and pricing of our ASIC chips. An increase in the economic return of cryptocurrency mining activities would generally stimulate the demand and average selling price for our ASIC chips and, in turn, our computing equipment for blockchain applications that incorporate our ASIC chips and ancillary hardware and software. An increase in the cryptocurrency price is the most significant factor that could increase the expected economic returns generated by cryptocurrency mining activities. Other factors that may increase the economic return of cryptocurrency mining activities include, among others, increase in transaction fees, decrease in electricity costs or other operating costs, increase in computing power and efficiency of mining machines, reduction of difficulties of mining activities and increase in number of cryptocurrencies awarded for mining activities. The volatility of the cryptocurrency price may significantly affect our business of operations and financial condition.

A decrease in the expected economic returns of cryptocurrency mining activities and the cryptocurrency price may also lead to increase in inventory write-downs, credit sales and write-downs of advances to suppliers as a result of stagnant demand and decrease in the average selling price for our ASIC chip products, which may significantly affect our gross margin and extend the billing cycle of our products.

Cryptocurrency prices have fluctuated significantly in the past few years and resulted in a corresponding fluctuation in our sales of ASIC chips. In the future, we expect that the cryptocurrency prices may continue to fluctuate, and as such, we would expect to experience a significant corresponding fluctuation in both sales volume and average selling prices of ASIC chip products, as well as write-downs of inventory, which may erode our profitability in the case of a significant cryptocurrency price drop. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business and Industry—There is no assurance that a cryptocurrency will maintain its long-term value, and volatility in the market prices of cryptocurrencies may adversely affect our business and results of operations.”

Market demand for our ASIC chips and development of blockchain technology and cryptocurrency markets

Our current ASIC chip products are mainly used for cryptocurrency mining. There can be no assurance that cryptocurrency mining will continue to grow in the future. Because market demand is dependent on the development of the blockchain technology, as well as innovations in cryptocurrency applications, our results of operations will significantly depend on our ability to keep pace with market demand to attract new customers or retain existing customers as well as to maintain or increase our market share. Our results of operations will also be significantly affected by developments in overall blockchain technology and cryptocurrency markets, and in particular, the cryptocurrency market. Cryptocurrency prices have fluctuated significantly in the past few years and resulted in a corresponding fluctuation in our sales of ASIC chips between 2021 and 2023. The cryptocurrency market may be affected by various factors, including, among others, the cryptocurrency price and expected return on cryptocurrency related activities such as mining and trading, different views regarding the decentralized nature of cryptocurrencies, acceptance of cryptocurrencies as an investment instrument as well as a currency for payment, competing cryptocurrencies to cryptocurrency, and changes in the cryptocurrency algorithm and the mechanism of mining.

Performance and cost of our products

The pricing of and demand for our ASIC chip products are closely related to their performance. In general, more advanced process technologies can accommodate designs that produce ASIC chips with higher power efficiency. The introduction of new process and design technologies also enables us to gradually lower the production costs of ASIC chips with comparable computing power. However, the application of such process technologies also commands high initial setup costs, particularly when the new production techniques first become available, which translates to higher per unit costs. Our new generation ASIC chips using the most advanced process technologies will need to achieve strong sales in order to justify the initial setup costs of the new production techniques and maintain our profitability. At the same time, as the most advanced production capabilities of IC foundries ramp up, the initial high unit cost for IC fabrication may also decrease, which will likely translate to lower fabrication costs and a positive effect on our business, results of operations and financial condition.

Competitiveness in research and development

We are a leading ASIC chip design company, and research and development is key to the success of our products. In 2021, 2022 and 2023, we incurred research and development expenses of RMB53.2 million, RMB48.4 million and RMB42.3 million (US\$6.0 million), respectively. We continue to focus on enhancing our product planning and research and development capabilities to enable us to introduce or improve products that can well address evolving customer needs in a timely manner. As existing competitors may introduce new technologies or provide more competitive offerings and more companies may enter the market to compete with us, competition may intensify in the future and consequently our competitiveness and market share may be affected. As a result, our ability to continue offering new and enhanced ASIC chip products as well as competitive products and technologies will have a significant impact on our results of operations.

Regulatory environment

We have historically generated all of our revenue from customers based in China. We intend to expand to overseas sales in the future to diversify our source of revenue. As such, we need to make efforts and incur costs to ensure that we are compliant with the existing laws and regulations relating to our business in the various jurisdictions that are material to our business and operations, and to comply with new laws and regulations or changes under existing laws and regulations that may arise in the future. Our ability to anticipate and respond to potential changes in government policies and regulations will have a significant impact on our business operations in such countries and our overall results of operations. See “Item 3 — Risk Factors — Risks Relating to Our Business and Industry — We are subject to risks associated with legal, political or other conditions or developments regarding holding, using or mining of cryptocurrencies and related products and services, which could negatively affect our business, financial condition, and results of operations.”

Production capacity

As a fabless IC design company, we outsource the fabrication process of our ICs to our Foundry Partner, and we outsource the testing and packaging process to third-party testing and packaging partners. In addition, we outsource the assembly of our computing equipment for blockchain applications to third-party contract manufacturers. We work closely with a limited number of such production partners. We cannot guarantee that our third-party production partners will be able to meet our manufacturing requirements or capacity or that they will not raise their prices. As a result, our ability to quickly respond to market demand and meet production timelines, as well as to price our products competitively, is highly dependent on our collaboration with third-party production partners. If our production partners are unable to meet our production capacity requirements or deliver products that meet our quality standards on a timely basis, our results of operations will be adversely affected. We may also incur significant cash outflow at the early stages of our production process because we are required to make prepayments to some of our third-party production partners to secure their production capacity beforehand, which may affect our liquidity position. In addition, any failure by our third-party production partners to perform their obligations in a timely manner may subject us to counterparty risk and make it difficult or impossible for us to fulfill our customers’ orders, which would harm our reputation and negatively affect our business, results of operations and financial condition.

Key Components of Results of Operations

Revenues

We derive our revenue primarily from sales of high-performance computing ASIC chip products including ASIC chips that have high computing power and superior power efficiency, computing equipment incorporating our ASIC chips, which we began offering to customers in the fourth quarter of 2023 and ancillary software and hardware, all of which cater to the evolving needs of the blockchain industry. In 2021, 2022 and 2023, we generated total revenue of RMB631.8 million, RMB473.7 million and RMB82.2 million (US\$11.6 million), respectively. All of our revenue was generated in the PRC during the same years. The following table sets forth the breakdown of our revenue for the years indicated:

	Years ended December 31,			
	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	US\$'000
Products revenue				
ASIC chip products:	631,838	473,740	68,358	9,628
ASIC chips	560,105	436,980	47,736	6,723
Computing equipment for blockchain applications	—	—	8,496	1,197
Ancillary software and hardware	71,733	36,760	12,126	1,708
Others	—	—	13,867 ⁽¹⁾	1,953
Total	631,838	473,740	82,225	11,581

Note 1: Such revenue was derived from the sales of certain intelligent router products which were acquired from third parties and integrated with our software solutions for resale purposes. This was a one-off transaction and we currently have no intention to continue this business in the future.

Revenue from sales of our ASIC chips is primarily affected by the number of ASIC chips sold and their average selling price. The following table sets forth the breakdown of sales volume and average selling price (per unit) (“ASP”) of ASIC chips delivered for the years indicated:

	2021			2022			2023			2023	
	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (US\$'000)	ASP (US\$)
<i>ASIC Chip (as a standalone product)</i>											
ICT560	83,770	1,437,544	58.27	42,793	598,264	71.53	256	4,096	62.50	36	8.80
ICT570	7,380	74,592	98.94	5,197	34,464	150.80	—	—	—	—	—
ICT580	—	—	—	4,231	42,624	99.27	2,304	59,066	39.01	325	5.49
ICC590	131,975	1,169,405	112.86	49,104	527,048	93.17	5,552	186,722	29.73	782	4.19
ICA585	—	—	—	166,508	681,454	244.34	7,300	196,164	37.21	1,028	5.24
ICA586	108,092	411,944	262.39	71,865	199,012	361.11	235	10,936	21.49	33	3.03
ICA588	206,823	1,706,716	121.18	61,939	549,596	112.70	1,070	39,232	27.27	151	3.84
ICA589	22,065	306,952	71.88	5,884	69,396	84.79	424	19,934	21.27	60	3.00
IAA561	—	—	—	25,875	486,663	53.17	10,823	273,442	39.58	1,524	5.57
ICC551	—	—	—	3,570	43,848	81.42	19,260	520,800	36.98	2,712	5.21
ICC552	—	—	—	—	—	—	493	8,568	57.54	69	8.10
Others	—	—	—	14	2,866	5.04	19	3,245	5.86	3	0.82
Total	560,105	5,107,153	109.67	436,980	3,235,235	135.07	47,736	1,322,205	36.10	6,723	5.08

Since we offer a wide range of computing equipment for blockchain applications, with each unit incorporating anywhere from tens to thousands of ASIC chips, as well as varying quantities and types of hardware and software depending on the number of ASIC chips embedded, it would not be meaningful to measure the per unit ASP of our computing equipment. Instead, the revenue from sales of our computing equipment is primarily affected by the types of ASIC chips embedded in each unit and their corresponding ASP. In this case, the ASP is calculated by dividing the total revenue generated from a specific unit of equipment as a unified product, including hardware and software components, by the total number of ASIC chips embedded in that equipment. The following table sets forth the breakdown of sales volume and ASP (per unit) of ASIC chips embedded in the computing equipment that was delivered for the years indicated:

	2021			2022			2023			2023	
	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (RMB'000)	Sales Volume (Unit)	ASP (RMB)	Revenue (US\$'000)	ASP (US\$)
<i>ASIC Chip (embedded in computing equipment)</i>											
ICT580	—	—	—	—	—	—	5	64	78.13	1	11.00
ICC590	—	—	—	—	—	—	398	11,520	34.55	56	4.87
ICC551	—	—	—	—	—	—	7,767	117,760	65.96	1,094	9.29
Others	—	—	—	—	—	—	326	5,824	55.98	46	7.88
Total	—	—	—	—	—	—	8,496	135,168	62.86	1,197	8.85

The average selling price of our ASIC chips and computing equipment changes from period to period and is primarily affected by the market price of cryptocurrencies, prices of our competitors' products, expected economic return of cryptocurrency mining, product types and demand for the chips. See “—Major Factors Affecting Our Results of Operations” for details of factors affecting economic return on cryptocurrency mining activities and the market demands.

Cost of Revenue

Cost of revenue for our ASIC chip products represents costs and expenses directly attributable to the manufacture of our products sold and delivered, which comprises product costs, including costs of raw materials, costs of contract manufacturers for production, shipping and handling costs as well as inventories write-down and prepayment write-down. The following table sets forth components of our cost of revenue for the periods indicated:

	2021	Years ended December 31,		
	2022	2023	2023	2023
	RMB'000	RMB'000	RMB'000	US\$'000
Cost of revenues (excluding the impact of write-down)	113,955	85,643	48,432	6,821
Inventories write-down and prepayment write-down	—	1,378	24,715	3,481
Total	113,955	87,021	73,147	10,302

Our average cost of ASIC chips per unit primarily comprises and is mainly affected by cost of wafer. The average per unit cost of wafers is affected by our purchase volume and technology advancement. We generally incur higher per unit cost for models with better performance. The average cost of our ASIC chips per unit (excluding those embedded in the computing equipment) was RMB11.89, RMB17.55 and RMB18.83 in 2021, 2022 and 2023, respectively, excluding the impact of certain write-downs.

Gross profit and gross profit margin

Our gross profit and gross profit margin are primarily affected by cryptocurrency prices, which have a significant effect on the average selling price of our products and the product mix. In 2021, 2022 and 2023, our gross profit was RMB517.9 million, RMB386.7 million and RMB9.1 million (US\$1.3 million), respectively. Our overall gross profit margin was 82.0%, 81.6% and 11.0%, respectively, for the same years.

Operating Expenses

Our operating expenses include research and development expenses, sales and marketing expenses and general and administrative expenses. The following table sets forth components of our operating expenses for the periods indicated:

	2021	Years ended December 31,		
	2022	2023	2023	2023
	RMB'000	RMB'000	RMB'000	US\$'000
Research and development expenses	53,153	48,387	42,304	5,958
Sales and marketing expenses	3,006	4,070	6,532	920
General and administrative expenses	14,403	11,557	25,210	3,551
Total	70,562	64,014	74,046	10,429

Research and development expenses. Research and development expenses primarily consist of salary and welfare for research and development personnel, tape-out expenses paid to the Foundry Partner, consulting and contractor expenses, testing and tooling materials and manufacturing for trial, and other expenses relating to research and development personnel. Substantially all of our research and development expenses are related to design of ASIC chips.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salary and welfare for sales and marketing personnel, warranty expenses, traveling expenses and other expenses relating to sales and marketing personnel.

General and administrative expenses. General and administrative expenses consist primarily of salary and welfare for general and administrative personnel, lease expenses and professional service fees.

Taxation

Cayman Islands

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

British Virgin Island

Pursuant to the rules and regulations of the British Virgin Island, we are not subject to any income tax in the British Virgin Island.

Hong Kong Profits Tax

Our subsidiaries incorporated in Hong Kong are subject to a two-tiered income tax rate on its taxable income generated from operations in Hong Kong effective on April 1, 2018. The first HK\$2 million of profits earned by its subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e., 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. Under the Hong Kong tax laws, which are effective from January 1, 2023, entities in HK are exempted from the Hong Kong income tax on its foreign-derived income if the HK entities meet economic substance requirement or participation requirement. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

Singapore

Tax on corporate income is imposed at a flat rate of 17%. A partial tax exemption and a three-year start-up tax exemption for qualifying start-up companies are available. Under partial tax exemption, 75% of the first SGD 10,000 of chargeable income is tax exempt and 50% of the next SGD 190,000 of chargeable income is tax exempt. Under start-up tax exemption, 75% of the first SGD 100,000 of chargeable income is tax exempt and 50% of the next SGD 100,000 of chargeable income is tax exempt. The start-up exemption is not available to property development and investment holding companies.

PRC Enterprise Income Tax ("EIT")

Shanghai Intchains obtained its High and New Technology Enterprises certificate with a valid period of three years in 2019, which was renewed in 2022 for another three years. Therefore, Shanghai Intchains was eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 and will continue to enjoy such preferential tax rate until 2024 to the extent it has taxable income under the EIT Law, as long as it maintains the qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. In addition, Shanghai Intchains is qualified as an integrated circuit design enterprise and enjoying a 5-year tax holiday (two-year full exemption followed by three year half reduction) beginning from 2021 after utilizing all prior years' tax losses. Therefore, Shanghai Intchains is eligible to enjoy a preferential tax rate of 0% after utilizing all prior year's tax losses in the future. Our other PRC subsidiaries are subject to the statutory income tax rate of 25%.

The carry forward period for net operating losses under the EIT Law is five years for general enterprises and ten years for HNTE and all tax losses have been utilized during the year of 2021. However, Shanghai Intchains is eligible to enjoy a preferential tax rate of 0% after utilizing all prior year's tax losses. These tax losses would not be expected to have effect on the effective taxation rate (0%) from 2021 to 2022 and 12.5% from 2023 to 2025.

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 Foreign- invested Enterprise (“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. The Cayman Islands, where the Company is incorporated, does not have such tax treaty with China. 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 will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong 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, 2021, 2022 and 2023, we did not record any withholding tax on the retained earnings of its subsidiaries in the PRC as we do not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC.

Principal Accounting Policies

Revenue from contracts with customers

The Group recognizes revenue to match the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services.

Products revenue

We generate revenue primarily from the sales of ASIC chips, computing equipment that incorporated the ASIC chips, ancillary software and hardware and other products .

Our sales arrangements usually require full prepayment before the delivery of products after April 2021. Before that date, we offered credit sales to certain significant, long-standing customers in China. The payment term was up to 6 months.

Generally, the sales of ASIC chips, computing equipment that incorporated the ASIC chips, ancillary software and hardware and other products forms an integral part of the performance obligations. ASIC chips are the most crucial hardware component embedded into our products that provide computing power and are also the key factor determining efficiency of the applications of the Group’s products. Other key hardware includes the computing board, control board, and other accessories such as power supply and structural parts. Software is embedded in hardware to provide basic configuration of relevant hardware that enables end-users to monitor the working conditions of the chips in real time, including real-time hash rate, temperature, and network connection. Computing equipment represents the comprehensive integration of software and hardware, incorporated our ASIC chips. All of these components are part of our products with regard to us in completing its performance obligations. Therefore, we recognize product revenue at a point in time based on management’s evaluation of when the control of the products has been passed to customers. The transfer of control is considered complete when products have been picked up by or deliver to shipper of our customers.

We offer a standard product warranty of no longer than six months that the product will operate under normal use. Except for the product warranty, we are not obligated to provide significant after- sales service such as hardware/software upgrades or updates. At the time revenue is recognized, an estimate of future warranty costs, is recorded as sales and marketing expenses. The reserves established are regularly monitored based upon historical experience and any actual claims charged against the reserve. The amount of total warranty costs incurred was immaterial for the year ended December 31, 2021, 2022 and 2023, respectively.

Cost of revenue

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue. Cost of revenue consists of product costs, including cost of raw materials, contract manufacturers for production, shipping and handling, costs inventories write-downs and prepayments write-downs.

Contract liabilities

Cash proceeds received from customers before product delivery is recognized as contract liabilities and is recognized as revenue when revenue recognition criteria are met. The prepayments received from customers as of December 31, 2021, 2022 and 2023 were RMB3.0 million, RMB6.0 thousand and RMB9.8 million, respectively. The revenue recognized during years ended December 31, 2021, 2022 and 2023 for such contract liability was nil, RMB3.0 million and RMB6.0 thousand, respectively.

Inventories

Inventories consist of finished goods, work in process and raw materials, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost or net realizable value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving and obsolete inventory, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. We take ownership, risks and rewards of the products purchased.

In accordance with ASC 855-10-55-1(b), we consider all data available, including future demand and subsequent changes in product prices that may provide additional information about the valuation of inventories at the balance sheet date.

Use of estimates

The preparation of our consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from such estimates.

We believes that accounting estimation of recoverability of prepayments to vendors, recoverability of prepayments on long-term assets, impairment on other long-lived assets, valuation of deferred tax assets, write-down for inventories and prepayments, valuation and recognition of share-based compensation and provision for product warranty reflect significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions as discussed elsewhere to the consolidated financial statements that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from these estimates.

Share-based compensation

We applies ASC 718 (“ASC 718”), Compensation—Stock Compensation, to account for its employee share-based payments. In accordance with ASC 718, We determines whether an award should be classified and accounted for as a liability award or an equity award.

All of our share-based awards to employees were classified as equity awards. We measures the employee share-based compensation based on the fair value of the award at the grant date. Expense is recognized using accelerated method over the requisite service period.

Share-based compensation in relation to the restricted share units (“RSUs”) is measured based on the fair market value of our ordinary shares at the grant date of the award. Share-based compensation in relation to the share options is estimated using the Binomial Model. The determination of the fair value of share options is affected by the share price of our ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these share options was determined by management with the assistance from an independent valuation firm. Share-based compensation expense of awards is recorded net of estimated forfeitures in our consolidated income statements and accordingly is recorded only for those share-based awards that are expected to vest. We estimate the forfeiture rate based on historical forfeitures of sharebased awards and adjust the rate to reflect changes when necessary. We review and revise our estimated forfeiture rate if actual forfeitures significantly differ from the initial estimates.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,			
	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	US\$'000
Products revenue	631,838	473,740	82,225	11,581
Cost of revenue	(113,955)	(87,021)	(73,147)	(10,302)
Gross profit	517,883	386,719	9,078	1,279
Operating expenses:				
Research and development expenses	(53,153)	(48,387)	(42,304)	(5,958)
Sales and marketing expenses	(3,006)	(4,070)	(6,532)	(920)
General and administrative expenses	(14,403)	(11,557)	(25,210)	(3,551)
Total operating expenses	(70,562)	(64,014)	(74,046)	(10,429)
Income/(loss) from operations:	447,321	322,705	(64,968)	(9,150)
Interest income	2,518	11,132	16,750	2,359
Foreign exchange gain/(loss), net	(238)	3,494	(524)	(74)
Other income, net	543	29,726	13,191	1,856
Income/(loss) before income tax expenses	450,144	367,057	(35,551)	(5,009)
Income tax (expense)/benefit	—	(11,856)	8,756	1,233
Net income/(loss)	450,144	355,201	(26,795)	(3,776)
Foreign currency translation adjustment, net of nil tax	—	—	1,838	259
Total comprehensive income/(loss)	450,144	355,201	(24,957)	(3,517)

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

Revenue. Revenue was RMB82.2 million (US\$11.6 million) in 2023, representing a decrease of 82.6% from RMB473.7 million in 2022. The decrease was mainly due to the overall challenging cryptocurrency market in 2023, leading to decreases in the sales volume and average selling price of our ASIC chips, partially offset by the revenue of RMB13.8 million derived from the sales of certain intelligent router products in 2023. These intelligent router products were acquired from third parties and integrated with our software solutions for resale purposes. This was a one-off transaction for us and we currently have no intention to continue this business in the future.

Cost of revenue. Our cost of revenue decreased by 15.9% from RMB87.0 million in 2022 to RMB73.1 million (US\$10.3 million) in 2023. The decrease was mainly attributable to the decline in sales volume of our ASIC chips, largely offset by an inventory write-down and a prepayment write-down, totaling approximately RMB24.7 million.

Gross profit and gross profit margin. As a result of the foregoing, we recorded a gross profit of RMB9.1 million (US\$1.3 million) in 2023 as compared to a gross profit of RMB386.7 million in 2022. Our gross profit margin decreased significantly from 81.6% in 2022 to 11.0% in 2023. The decrease was mainly due to the overall challenging cryptocurrency market in 2023, which caused us to reduce prices on our products to maintain competitiveness, and the inventory and prepayment write-downs as mentioned above.

Operating expenses. Our total operating expenses increased by 15.7% from RMB64.0 million in 2022 to RMB74.0 million (US\$10.4 million) in 2023, primarily due to the increases in sales and marketing expenses and general and administrative expenses, partially offset by a decrease in research and development expenses.

- *Research and development expenses.* Our research and development expenses decreased by 12.6% from RMB48.4 million in 2022 to RMB42.3 million (US\$6.0 million) in 2023. The decrease in our expenses was primarily attributable to the different stages of our research and development projects during the respective periods. This decrease was partially offset by an increase in personnel-related expenses and depreciation and amortization expenses. We increased the headcount of our research and development team from 69 as of December 31, 2022 to 99 as of December 31, 2023. Our research and development expenses as a percentage of our revenue were 51.4% in 2023 as compared with 10.2% in 2022.
- *Sales and marketing expenses.* Our selling expenses increased by 60.5% from RMB4.1 million in 2022 to RMB6.5 million (US\$0.9 million) in 2023, primarily due the increase in staff cost of sales and marketing personnel. Our sales and marketing expenses as a percentage of our revenue was 7.9% in 2023 as compared with 0.9% in 2022.
- *General and administrative expenses.* Our general and administrative expenses increased by 118.1% from RMB11.6 million in 2022 to RMB25.2 million (US\$3.6 million) in 2023, primarily due to an increase in rental expenses, labor costs and professional expenses. Our general and administrative expenses as a percentage of our revenue was 30.7% in 2023 as compared with 2.4% in 2022.

Interest income. Our interest income increased by 50.5% from RMB11.1 million in 2022 to RMB16.8 million (US\$2.4 million) in

2023, primarily due to our effective fund management.

Foreign exchange gain/(loss), net. Our foreign exchange gain, net was RMB3.5 million in 2022. Our foreign exchange loss, net was RMB0.5 million (US\$0.1 million) in 2023. The decrease was as a result of the exchange rate fluctuation between RMB and U.S. dollars.

Other income, net. Our other income, net, decreased by 55.6% from RMB29.7 million in 2022 to RMB13.2 million (US\$1.9 million) in 2023, primarily due to a decrease in government grants we received from local government.

Net loss. As a result of the foregoing, we recorded a net loss of RMB26.8 million (US\$3.8 million) in 2023, compared to a net income of RMB355.2 million in 2022.

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

Revenue. Our revenue decreased by 25.0% from RMB631.8 million in 2021 to RMB473.7 million (US\$68.7 million) in 2022, primarily due to the decrease in the sales volume of our ASIC chips, which was in line with the broad decline of cryptocurrency market in 2022.

Cost of revenue. Our cost of revenue decreased by 23.6% from RMB114.0 million in 2021 to RMB87.0 million (US\$12.6 million) in 2022, primarily due to the decrease in the sales volume of our ASIC chips.

Gross profit and gross profit margin. As a result of the foregoing, we recorded a gross profit of RMB386.7 million (US\$56.1 million) in 2022 as compared to a gross profit of RMB517.9 million in 2021. Our gross profit margin remained relatively stable at 82.0% and 81.6% in 2021 and 2022, respectively.

Operating expenses. Our total operating expenses decreased by 9.3% from RMB70.6 million in 2021 to RMB64.0 million (US\$9.3 million) in 2022, primarily due to the decrease in research and development expenses for the design of ASIC chips.

- *Research and development expenses.* Our research and development expenses decreased by 9.0% from RMB53.2 million in 2021 to RMB48.4 million (US\$7.0 million) in 2022, primarily due to the reduction in direct materials and tape-out expenses in connection with our research and development projects, which was partially offset by the increased staff cost of research and development personnel. Our research and development expenses as a percentage of our revenue was 10.2% in 2022 as compared with 8.4% in 2021.
- *Sales and marketing expenses.* Our selling expenses increased from RMB3.0 million in 2021 to RMB4.1 million (US\$0.6 million) in 2022, primarily due to the increase in staff cost of sales and marketing personnel. Our sales and marketing expenses as a percentage of our revenue was 0.9% in 2022 as compared with 0.5% in 2021.
- *General and administrative expenses.* Our general and administrative expenses decreased by 19.8% from RMB14.4 million in 2021 to RMB11.6 million (US\$1.7 million) in 2022, primarily due to the decrease in taxes surcharges and professional expenses. Our general and administrative expenses as a percentage of our revenue was 2.4% in 2022 as compared with 2.3% in 2021.

Interest income. Our interest income increased by 342.1% from RMB2.5 million in 2021 to RMB11.1 million (US\$1.6 million) in 2022, primarily in connection with the interest from the increase in our cash balance.

Foreign exchange gain/(loss), net. Our foreign exchange loss, net was RMB0.2 million in 2021. While our foreign exchange gain, net was RMB3.5 million (US\$0.5 million) in 2022. The reversal was as a result of the exchange rate fluctuation between RMB and U.S. dollars as we make prepayment to our Foundry Partner in U.S. dollars.

Other income, net. Our other income, net increased by 5,374.4% from RMB0.5 million in 2021 to RMB29.7 million (US\$4.3 million) in 2022, primarily due to an increase in government grants we received from local government.

Net income. As a result of the foregoing, net income decreased by 21.1% to RMB355.2 million (US\$51.5 million) in 2022 from RMB450.1 million in 2021.

Subsequent events

On February 28, 2024, we completed our previously reported acquisition of certain assets from Singapore-based GOLDSHELL PTE. LTD., or the Seller, in accordance with an asset acquisition agreement between us and the Seller dated December 8, 2023. Pursuant to the terms and conditions of such asset acquisition agreement, we acquired the Goldshell brand and certain related assets for a cash consideration of US\$550,000.

On January 22, 2024, Maxim Partners LLC exercised the underwriter's warrants granted in connection with our initial public offering on the Nasdaq Capital Market in full through a cashless exercise to acquire 7,921 of our ADSs.

B. Liquidity and Capital Resources

Our primary source of liquidity historically has been cash generated from our business operations, bank loans and equity contributions from our shareholders, which have historically been sufficient to meet our working capital and capital expenditure requirements.

In 2021, we entered into a short-term loan agreement with Shanghai Pudong Development Bank Co., Ltd., new branch of Shanghai Pilot Free Trade Zone with aggregated principal amount of RMB5.0 million (US\$0.7 million) with interest rate of 4% per annum which was guaranteed by Shanghai Small, Medium and Micro Enterprise Policy Financing Guarantee Fund Management Center, an independent third party, Mr. Chaohua Sheng, our co-founder and spouse of Mr. Chaohua Sheng. The loan was fully repaid in October 2021.

As of December 31, 2023, our cash and cash equivalents were RMB694.8 million (US\$97.9 million). Our cash and cash equivalents primarily consist of cash in bank and other financial institutions with no restriction.

We believe that our existing cash and cash equivalents and anticipated cash flows from operating activities will be sufficient to meet our anticipated working capital requirements and capital expenditures in the ordinary course of business for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments, or if we find and wish to pursue opportunities for investments, acquisitions, capital expenditures or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Our ability to manage our working capital, including receivables and other assets and liabilities and accrued liabilities, may materially affect our financial condition and results of operations.

The following table sets forth our selected consolidated cash flow data for the periods indicated:

	Years ended December 31,			
	2021	2022	2023	2023
	RMB'000	RMB'000	RMB'000	US\$'000
Net cash provided by (used in) operating activities	395,420	326,685	(4,708)	(665)
Net cash used in investing activities	(1,770)	(116,874)	(64,986)	(9,152)
Net cash provided by financing activities	89,143	—	51,218	7,215
Net increase(decrease) in cash and cash equivalents	482,793	209,811	(18,476)	(2,602)
Effect of exchange rate changes on cash and cash equivalent	—	—	995	140
Cash and cash equivalents, at the beginning of year	19,627	502,420	712,231	100,316
Cash and cash equivalents, at the end of year	502,420	712,231	694,750	97,854

Operating Activities

Net cash used in operating activities for the year ended December 31, 2023 was RMB4.7 million (US\$0.7 million), primarily reflecting net loss of RMB26.8 million, as adjusted by (a) positive changes of RMB19.8 million in non-operating and non-cash items primarily including inventory provision, deferred income tax benefit, depreciation and amortization expenses and share-based compensation; and (b) positive changes of RMB2.3 million in working capital primarily reflecting (i) an increase of RMB23.5 million in prepayments and other assets primarily attributable to an increase of RMB13.2 million in prepayments to vendors, an increase of RMB8.6 million in interest receivables, and an increase of RMB1.7 million in net VAT deductible taxes; (ii) a decrease of RMB11.4 million in inventories as a result of our conservative procurement strategy in response to the challenging market conditions; (iii) an increase of RMB9.8 million in contract liabilities as a result of the recovery of the market; (iv) an increase of RMB8.3 million in accrued liabilities and other liabilities as a result of the increase in accrued payroll, tax payables and other payables; and (v) a decrease of RMB2.7 million in accounts payable as a result of a decrease in purchase of inventories.

Net cash provided by operating activities for the year ended December 31, 2022 was RMB326.7 million, primarily reflecting net income of RMB355.2 million, as adjusted by (a) positive changes of RMB3.2 million in non-operating and non-cash items including inventory provision, and depreciation and amortization expenses; and (b) negative changes of RMB31.7 million in working capital primarily reflecting (i) an increase of RMB12.3 million in inventories as a result of the increased stock of working in progress and key raw materials; (ii) a decrease of RMB10.9 million in accrued liabilities and other liabilities as a result of the decrease in VAT taxes payables and other current liabilities; (iii) an increase of RMB3.8 million in prepayments and other assets because of the increase in net VAT deductible taxes and prepayments of listing expenses, partially offset by the decrease in prepayments to vendors; (iv) a decrease of RMB3.7 million in accounts payable as a result of the decrease in purchase of inventories; and (v) a decrease of RMB3.0 million in contract liabilities as a result of the decrease in sales orders.

Net cash provided by operating activities for the year ended December 31, 2021 was RMB395.4 million, primarily reflecting net income of RMB450.1 million, as adjusted by (a) positive changes of RMB0.7 million in non-operating and non-cash items including interest expense and depreciation and amortization expenses; and (b) negative changes of RMB55.4 million in changes in assets and liabilities primarily reflecting (i) a decrease of RMB6.5 million in accounts receivable and an increase of RMB3.0 million in contract liabilities as a result of our requirement of full prepayment of purchase price since early 2021; (ii) an increase of RMB57.3 million in inventories and an increase of RMB30.5 million in prepayments and other current assets as a result of the significant growth in our production and sales; (iii) an increase of RMB17.0 million in accrued liabilities and other liabilities as a result of the increases in our accrued salaries and taxes resulting from the growth of our business; and (iv) an increase of RMB6.0 million in accounts payable as a result of the increase in our procurements due to the growth of our business.

Investing Activities

Net cash used in investing activities was RMB65.0 million (US\$9.2 million) for the year ended December 31, 2023, which was primarily attributable to the purchase of property, equipment and software, and intangible assets of RMB50.3 million, and the payment for short-term investments of RMB14.1 million.

Net cash used in investing activities was RMB116.9 million for the year ended December 31, 2022, which was primarily attributable to the prepayments on long-term assets in connection with purchase of a premise.

Net cash used in investing activities was RMB1.8 million in 2021, which was primarily attributable to the purchase of property, equipment and software.

Financing Activities

Net cash provided by financing activities was RMB51.2 million (US\$7.2million) for the year ended December 31, 2023, which was attributable to proceeds from issuance of ordinary shares of RMB61.3 million, which was partially offset by the payment for cost of issuance of RMB10.1 million.

Net cash provided by financing activities was nil for the year ended December 31, 2022 as we did not conduct any financing activities.

Net cash provided by financing activities was RMB89.1 million in 2021, which was attributable to proceeds from issuance of ordinary shares of RMB100.0 million, and proceeds from capital contribution in a subsidiary from a shareholder of RMB4.0 million, which was partially offset by a decrease in distribution to the then shareholders for our reorganization of RMB10.5 million.

Capital Expenditures

We made capital expenditures of RMB1.8 million, RMB116.9 million and RMB50.9 million (US\$7.2 million) in 2021, 2022 and 2023, respectively. In these periods, our capital expenditures were mainly used for the purchase of property, equipment and software, intangible assets and other non-current assets.

We plan to fund our future capital expenditures with our existing cash balance and proceeds from the initial public offering that we completed in March 2023 on the Nasdaq Capital Market.

Holding Company Structure

Intchains Group Limited is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries in the PRC. As a result, Intchains Group Limited's ability to pay dividends depends upon dividends paid by our subsidiaries in the PRC. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiary in mainland China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

Under PRC law, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and our non-foreign-owned subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Recently issued accounting pronouncements

New and amended standards adopted by our Group

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). This guidance requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The measurement of expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability. In November 2018, the FASB issued No. ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses (“ASU 2018-19”), which clarifies certain topics included within ASU 2016-13. In November 2019, the FASB issued No. ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates (“ASU 2019-10”), which extends the adoption date for certain registrants. The amendments in ASU 2016-13 and ASU 2018-19 are effective for the Group for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We adopted this new guidance on January 1, 2023 and it did not have material effect on its consolidated financial statements and related disclosures.

New and amended standards not yet adopted by our Group

On December 14, 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 requires that entities disclose specific categories in their rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. The new standard is effective for the Company beginning December 15, 2024, with early adoption permitted. The amendments should be applied on a prospective basis and retrospective application is also permitted. We do not expect that the adoption of ASU 2023-09 would have a material effect on its consolidated financial statements and related disclosures.

On December 13, 2023, the FASB issued ASU No. 2023-08, Accounting for and Disclosure of Crypto Assets (“ASU 2023-08”), which requires entities that hold crypto assets to subsequently measure such assets at fair value with changes recognized in net income each reporting period. The guidance also requires crypto assets measured at fair value to be presented separately from other intangible assets on the balance sheet and changes in the fair value measurement of crypto assets to be presented separately on the income statement from changes in the carrying amounts of other intangible assets. The new standard is effective for fiscal years beginning December 15, 2024, with early adoption permitted. We are currently evaluating the impact of adopting the standard.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (“ASU 2023-07”), which requires the disclosure of significant segment expenses that are part of an entity’s segment measure of profit or loss and regularly provided to the chief operating decision maker. In addition, it adds or makes clarifications to other segment-related disclosures, such as clarifying that the disclosure requirements in ASC No. 280 are required for entities with a single reportable segment and that an entity may disclose multiple measures of segment profit and loss. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be adopted retrospectively. We do not expect that the adoption of ASU 2023-07 would have a material effect on its consolidated financial statements and related disclosures.

C. Research and Development

Please refer to “Item 4. Information of the Company—B. Business Overview—Research and Development” for details.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2023 that are reasonably likely to have a material and adverse effect on our income, expenses, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions. Please refer to “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Overview—Major Factors Affecting Our Results of Operations” for details.

E. Critical Accounting Estimates

Please refer to “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Principal Accounting Policies” for details.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information relating to our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is c/o Building 16, Lane 999, Xinyuan South Road, Lin-Gang Special Area, Pudong, Shanghai, 201306, the People’s Republic of China.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Qiang Ding	45	Chairman and Chief Executive Officer
Chaohua Sheng	43	Director and Chief Technology Officer
Conway Kong-Wai Lee	69	Independent Director
Qingyang Gu	62	Independent Director
Weiping Ma	62	Independent Director
Chaowei Yan	38	Chief Financial Officer

Mr. Qiang Ding, has been serving as our chairman of the board of directors and chief executive officer since our inception. Mr. Ding has more than 16 years of experience in the IC design industry and is responsible for our overall strategic development and operation. Before founding our Group, Mr. Ding was a software engineer at Shanghai Jade Microelectronics Co., Ltd. from April 2005 to July 2006. He was then a senior engineer at Freescale Shanghai Co., Ltd. from July 2006 to August 2009. Mr. Ding served as the director of research and development and deputy general manager at Shanghai InfoTM Microelectronics Co., Ltd. from September 2009 to January 2018. He obtained a master's degree in computer engineering from Fudan University in 2005.

Mr. Chaohua Sheng, has been serving as our chief technology officer since our inception and our director since December 2021. He has more than 16 years of experience in the IC design industry and is responsible for overall management of research and development. Before founding our Group, he served as the chief technology officer at Shanghai Freqchip Microelectronics Co., Ltd. from January 2014 to February 2018. He was a research and development manager at OmniVision Technologies Co., Ltd. from July 2010 to April 2013. Mr. Sheng was a research and development manager at Shanghai Accel Semiconductor Co., Ltd. from June 2005 to July 2010. He obtained a bachelor's degree from Fudan University in 2002 and a master's degree in computer architecture from Fudan University in 2005.

Mr. Conway Kong-Wai Lee has been serving as our independent director since March 2023. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. He has extensive experience in U.S. GAAP and International Financial Reporting Standards from performing audit work in connection with initial public offerings in the U.S. by China-based companies. Mr. Lee served as a partner of Ernst & Young for 29 years from September 1980 to September 2009. He was a non-executive director and the deputy chairman of China Environmental Technology and Bioenergy Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1237) from July 2014 to September 2015. Mr. Lee has been serving as an independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including Chaowei Power Holdings Limited (stock code: 0951) since June 2010, West China Cement Limited (stock code: 2233) since July 2010, China Modern Dairy Holdings Limited (stock code: 1117) since October 2010, NVC Lighting Holding Limited (stock code: 2222) since November 2012, GCL New Energy Holdings Limited (stock code: 0451) since May 2014. Mr. Lee served as an independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including CITIC Securities Company Limited (stock code: 6030), a company also listed on the Shanghai Stock Exchange (stock code: 600030), from August 2011 to May 2016, Guotai Junan Securities Company Limited (stock code: 2611), a company also listed on the Shanghai Stock Exchange (stock code: 601211), from October 2016 to November 2023, Tibet Water Resources Holdings Ltd. (stock code: 1115) from July 2011 to February 2020, WH Group Limited (stock code: 0288) from August 2014 to June 2022, China Rundong Auto Group Limited (stock code: 1365) from August 2014 to December 2020, Yashili International Holdings Limited (stock code: 1230) from November 2013 to July 2023 and Gome Electrical Appliances Holdings Limited (stock code: 0493) from March 2011 to September 2023.

Mr. Lee received a bachelor's degree in arts from the Kingston Polytechnic (currently known as the Kingston University) in London in July 1980 and further obtained his postgraduate diploma in business from the Curtin University of Technology in Australia in February 1988. Mr. Lee has been a member of several institutes of certified accountants, including the Institute of Chartered Accountants in England and Wales since October 2007, the Chartered Accountants Australia and New Zealand since December 1996, the Association of Chartered Certified Accountants since September 1983, the Hong Kong Institute of Certified Public Accountants since March 1984 and the Macau Society of Registered Accountants since July 1995.

Dr. Qingyang Gu has been serving as our independent director since March 2023. He has over 30 years of experience in economics and public policy. Dr. Gu has been an associate professor of the Lee Kuan Yew School of Public Policy of the National University of Singapore since August 2009, where he conducts lectures on the Chinese economy, economics of the public sector and urban development. He was an Assistant Professor at the Nanyang Technological University of Singapore from July 2001 to July 2009, where he taught mathematical economics, microeconomics and macroeconomics and cost-benefit analysis and undertook research work relating to the Chinese economy, econometric modelling, reform of state-owned enterprises and international trade and finance. He carried out research on the Chinese economy, Singapore public policy and urban development from June 1997 to July 2001 as a research officer in the East Asian Institute of the National University of Singapore. He has been the chairman of Nominating and Remuneration Committee and an independent director of the Sasseur Asset Management Pte Ltd, a real estate investment trust listed on the Singapore Exchange (SGX:CRPU) since November 2017. He has been serving as a non-executive director of PCI-Suntek Technology Co Ltd, a company listed on the Shanghai Stock Exchange (stock code: 600728), since July 2019.

Dr. Gu obtained his bachelor degree in mathematics from Human Normal University in 1982, his master degree in economics of education from Peking University 1988 and his PhD in economics from Nanyang Technological University in 2002.

Dr. Weiping Ma has been serving as our independent director since March 2023. He has over 30 years of management and technical experience in the building materials industry in both the United States of America and China. Dr. Ma has been serving as an executive director and the chief executive officer of West China Cement Limited, a company listed on the Hong Kong Stock Exchange (stock code: 2233), since February 2015. Dr. Ma served as senior process engineer and held several management positions for Holcim in Michigan, United States from 1996 to 2002. He served as vice president of marketing and sales for Lafarge (China) in Beijing from 2002 to 2005 and served in a similar position for Lafarge Shuion Cement from 2005 to 2008. Dr. Ma served as general manager and vice president for Lafarge A&C in China from 2008 to 2009. He was the managing director of Fuping Cement, a company wholly owned by Italcementi Group, from 2009 to 2012. Dr. Ma was the Chief Representative and Country Manager in China for the Italcementi Group from 2009 to 2014.

Dr. Ma received a bachelor's degree in Inorganic and Non-Metallic Materials from Tongji University in 1982, a master's degree in Solid State Science and a Ph.D in Materials from Pennsylvania State University in 1991 and 1994, respectively. Dr. Ma also obtained a Master of Business Administration in Integration Management from Michigan State University in 2002.

Mr. Chaowei Yan, has been serving as our chief financial officer since December 2021. Mr. Yan has more than nine years of experience in accounting and finance and is responsible for overseeing our financial matters. Prior to joining us in May 2021, Mr. Yan served as an audit manager at Ernst & Young Hua Ming LLP Shanghai Branch from October 2014 to May 2021. He served as an auditor at KPMG Huazhen LLP from 2012 to 2014. Mr. Yan has been a member of The Chinese Institute of Certified Public Accountants since 2015. He obtained a master's degree in strategic management from Shanghai International Studies University in 2012.

Board Diversity

The table below provides certain information regarding the diversity of our board of directors as of the date of this annual report.

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

Family Relationships

There is no family relationship between any of the persons named above and no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

B. Compensation

For the year ended December 31, 2023, we and our subsidiaries paid aggregate cash compensation of RMB4.4 million (US\$0.6 million) to our directors and executive officers as a group. This amount consisted only of cash and did not include any share-based compensation or benefits in kind. We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

Share Incentive Plan

2022 Plan

We adopted the 2022 share incentive plan, or 2022 Plan, in July 2022 which became effective in March 2023. The purpose of the 2022 Plan is to attract and retain highly qualified mid-to high-level management, consultants and other qualified persons, and to motivate such persons to serve us and to expend maximum effort to improve our business results and earnings, by providing such persons an opportunity to share equity interest in our operations and future success.

The maximum number of ordinary shares that may be issued under the 2022 Plan is 6,500,000. The number of ordinary shares available for issuance under the 2022 Plan shall automatically increase on the first trading day in January of each calendar year during the ten-year term of the 2022 Plan commencing from the calendar year beginning January 1, 2023, by an amount equal to the lesser of (i) 1% of the total number of shares issued and outstanding measured as of the last trading day of the immediately preceding calendar year, and (ii) such number of shares as may be determined by our board of directors, but in no event shall any such annual increase exceed 1,350,000 ordinary shares. As of the date of this annual report, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2022 Plan is 7,698,760. As of the date of this annual report, awards to purchase 524,874 ordinary shares under the 2022 Plan have been granted and outstanding.

The following paragraphs summarize the terms of the 2022 Plan:

Eligibility. Our qualified officers, directors, employees, consultants and other qualified persons are eligible to participate in the 2022 Plan.

Types of Awards. The 2022 Plan permits the awards of options, share appreciation rights, share awards, restricted share units, dividend equivalents or other share-based awards.

Plan Administration. Our board of directors, or a committee designated by our board of directors, will administer the plan, unless otherwise determined by the board of directors.

Evidence of award. Awards can be evidenced by an agreement, certificate, resolution or other types of writing or an electronic medium approved by the board of directors or the compensation committee as the plan administrator that sets forth the terms and conditions of the awards granted.

Conditions of Award. The administrator shall determine the participants, types of awards, numbers of shares to be covered by awards, terms and conditions of each award, and provisions with respect to the vesting schedule, settlement, exercise, cancellation, forfeiture or suspension of awards.

Term of Award. The term of each award shall be fixed by the administrator and is stated in the award agreement between recipient of an award and us, provided that the term shall generally be no more than ten years from the date of grant thereof.

Vesting Schedule. In general, the plan administration committee determines the vesting schedule, which is specified in the relevant award agreement.

Transfer Restrictions. Unless otherwise determined by the administrator or for certain limited permitted transfers, no award and no right under any such award shall be assignable, alienable, saleable or transferable by the employee holder otherwise than by will or by the laws of descent and distribution.

Amendment, Suspension or Termination. The board of directors may amend, alter, suspend, discontinue or terminate the 2022 Plan, or any award agreement hereunder or any portion hereof or thereof at any time, provided, however, that no such amendment, alteration, suspension, discontinuation or termination shall be made without the consent of the affected recipient of an award with respect to any award agreement, the consent of the affected recipient of an award, if such action would materially and adversely affect the rights of such recipient under any outstanding award.

The following table summarizes, as of the date of this annual report, the outstanding options that were granted to our directors and executive officers under the 2022 Plan:

Name	Class A Ordinary Shares to be Received based on the Options Awarded	Options Awarded	Exercise Price	Date of Grant	Date of Expiration
Mr. Chaowei Yan	20,832	10,416	\$8.00 per award	May 29, 2023	May 29, 2033

The following table summarizes, as of the date of this annual report, the outstanding restricted share units that were granted to our directors and executive officers under the 2022 Plan:

Name	Class A Ordinary Shares to be Received based on the Restricted Share Units Awarded	Restricted Share Units Awarded	Exercise Price	Date of Grant
Mr. Chaowei Yan	27,326	13,663	—	May 29, 2023

C. Board Practices

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. In certain limited exception circumstances, a shareholder has the right to seek damages in our name if a duty owed by our directors is breached.

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

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

Terms of Directors

Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution or the unanimous written resolution of all shareholders.

Our officers are elected by and serve at the discretion of our board of directors, and may be removed by our board of directors.

Board Practices

Our board of directors has established an audit committee, a compensation committee and a nomination and corporate governance committee.

Audit Committee

Our audit committee consists of Mr. Conway Kong-Wai Lee, Dr. Qingyang Gu and Dr. Weiping Ma, and is chaired by Mr. Conway Kong-Wai Lee. Our board of directors has determined that Mr. Conway Kong-Wai Lee, Dr. Qingyang Gu and Dr. Weiping Ma satisfy the "independence" requirements of Rule 10A-3 under the Exchange Act, and Nasdaq Marketplace Rule 5605(a)(2). Our audit committee will consist solely of independent directors that satisfy the Nasdaq and SEC requirements within one year of the completion of our initial public offering. We have determined that Mr. Conway Kong-Wai Lee qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing or removing the independent auditor and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditor;
- setting clear hiring policies for employees or former employees of the independent auditor;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and approving all related-party transactions;
- discussing the annual audited financial statements with management and the independent auditor;

- discussing with management and the independent auditor major issues regarding accounting principles and financial statement presentations;
- reviewing analyzes or other written communications prepared by management or the independent auditor relating to significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
- reviewing with management and the independent auditor the effect of key transactions, related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditor the effect of regulatory and accounting initiatives;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company;
- establishing procedures for the receipt, retention and treatment of complaints we received regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- periodically reviewing and reassessing the adequacy of our audit committee charter;
- evaluating the performance, responsibilities, budget and staffing of our internal audit function and reviewing and approving the internal audit plan; and
- reporting regularly to the board of directors.

Compensation Committee

Our compensation committee consists of Dr. Weiping Ma, Mr. Qiang Ding and Mr. Conway Kong-Wai Lee and is chaired by Dr. Weiping Ma. Our board of directors has determined that Dr. Weiping Ma and Mr. Conway Kong-Wai Lee satisfy the “independence” requirements of Nasdaq Marketplace Rule 5605(a)(2). Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation of our executive officers;
- reviewing and evaluating our executive compensation and benefits policies generally;
- in consultation with our chief executive officer, periodically reviewing our management succession planning;
- reporting to our board of directors periodically;
- evaluating its own performance and reporting to our board of directors on such evaluation;
- periodically reviewing and assessing the adequacy of the compensation committee charter and recommending any proposed changes to our board of directors; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nomination and Corporate Governance Committee

Our nomination and corporate governance committee consists of Mr. Chaohua Sheng, Dr. Qingyang Gu and Dr. Weiping Ma, and is chaired by Mr. Chaohua Sheng. Our board of directors has determined that Dr. Qingyang Gu and Dr. Weiping Ma satisfy the “independence” requirements of Nasdaq Marketplace Rule 5605(a)(2). The nomination and corporate governance committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nomination and corporate governance committee is responsible for, among other things:

- identifying and recommending to the board of directors qualified individuals for membership on the board of directors and its committees;
- evaluating, at least annually, its own performance and reporting to the board of directors on such evaluation;
- leading our board of directors in a self-evaluation to determine whether it and its committees are functioning effectively;

- reviewing the evaluations prepared by each board committee of such committee’s performance and considering any recommendations for proposed changes to our board of directors;
- reviewing and approving compensation (including equity-based compensation) for our directors;
- overseeing compliance with the corporate governance guidelines and code of business conduct and ethics and reporting on such compliance to the board of directors; and
- reviewing and assessing periodically the adequacy of its charter and recommending any proposed changes to the board of directors for approval.

Corporate Governance

Our board of directors has adopted a code of business conducts and ethics, which is applicable to all of our directors, officers, employees and advisors. We will make our code of business conducts and ethics publicly available on our website. In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board’s structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our memorandum and articles of association, as amended from time to time. The code of business conducts and ethics and corporate governance guidelines all became effective in March 2023.

Interested Transactions

A director may vote with respect to any contract or transaction in which he or she is interested, provided that the nature of the interest of any director in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers for a specified time period providing that the agreements are terminable for cause at any time. The terms of these agreement are substantially similar to each other. A senior executive officer may terminate his or her employment at any time by 30-day prior written notice. We may terminate the executive officer’s employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties.

Each executive officer has agreed to hold in strict confidence and not to use, except for the benefit of our company, any proprietary information, technical data, trade secrets and know-how of our company or the confidential or proprietary information of any third party, including our subsidiaries and our clients, received by our company. Each of these executive officers has also agreed to be bound by noncompetition and non-solicitation restrictions during the term of his or her employment and typically for two years following the last date of employment.

We have also entered into indemnification agreements with our directors and executive officers, pursuant to which we will agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

D. Employees

We had 64, 101 and 133 employees as of December 31, 2021, 2022 and 2023 in China, respectively. As of December 31, 2023, we had 99 employees focus on research and development, 17 employees focus on sales and marketing, 6 employees in administration department and 11 employees in finance and accounting department.

We use our share incentive plans as additional means to further attract, motivate, retain and reward selected directors, officers, employees and third-party consultants and advisors. For more information, see “Item 6.B. Directors, Senior Management and Employees — Compensation — Share Incentive Plan.” We believe these initiatives have contributed to our ability to attract and retain talent.

As required by PRC laws and regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We make monthly payments to these plans in respect of each employee based on the employee’s compensation. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Section 13(d)(3) of the Exchange Act, of our common shares as of March 18, 2024 by:

- each person known to us to own beneficially more than 5% of common shares, and
- each of our directors and executive officers.

	Number of Class A Ordinary Shares	Number of Class B Ordinary Shares	Ordinary shares beneficially owned % of total ordinary shares on an as-converted basis*	% of voting Power**
Directors and Executive Officers†:				
Qiang Ding (1)	—	47,232,420	39.40	67.88
Chaohua Sheng (2)	—	16,759,820	13.98	24.09
Conway Kong-Wai Lee	—	—	—	—
Qingyang Gu	—	—	—	—
Weiping Ma	—	—	—	—
Chaowei Yan	—	—	—	—
Directors and Executive Officers Combined		63,992,240	53.38	91.97
Principal Shareholders:				
Intchain DQ Asset Holding Limited (1)	—	25,961,500	21.65	37.31
Intchains SCH Holding Limited (2)	—	16,759,820	13.98	24.09
Golden Stone Capital Limited (3)	17,099,120	—	14.26	2.46
Intchains CHX1 Limited (1) (4)	—	11,952,120	9.97	17.18
Intchains ZWM Holding Limited (5)	7,291,900	—	6.08	1.05
Yang Feng 888 Capital Limited (6)	7,268,100	—	6.06	1.04
Intchains CHX2 Limited(1)(7)	—	6,318,800	5.27	9.08

* The number of common shares beneficially owned by each of the listed persons includes common shares that such person has the right to acquire within 60 days after March 18, 2024.

** For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all our Class A ordinary shares and Class B ordinary shares as a single class. Each Class A ordinary share is entitled to one vote per share and each Class B ordinary share is entitled to ten votes per share on all matters submitted. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis. Our Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

† Except as otherwise indicated below, the business address of our directors and executive officers is c/o Building 16, Lane 999, Xinyuan South Road, Lin-Gang Special Area, Pudong, Shanghai, 201306, the People's Republic of China.

(1) Represents (i) 25,961,500 ordinary shares held by Intchain DQ Asset Holding Limited, or DQ BVI, a BVI company wholly owned by Mr. Qiang Ding; (ii) 11,952,120 ordinary shares held by Intchains CHX1 Limited, or CHX 1 BVI; (iii) 3,000,000 ordinary shares held by Intchains DQ Holding limited, a BVI company wholly owned by DQ BVI; and (iv) 6,318,800 ordinary shares held by Intchains CHX2 Holding limited, or CHX 2 BVI, a BVI company wholly owned by DQ BVI. The registered office of DQ BVI, Intchains DQ Holding limited and CHX2 BVI is located at Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands. For shareholding and registered office of CHX 1 BVI, please refer to note (5) below.

(2) Represents 16,759,820 ordinary shares held by Intchains SCH Holding Limited, or SCH BVI, a BVI company wholly owned by Mr. Chaohua Sheng. The registered office of SCH BVI is located at Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands.

- (3) Represents 17,099,120 ordinary shares held by Golden Stone Capital Limited which is a Samoa company wholly owned by Mr. Zhaoyang Ma. The registered office of Golden Stone Capital Limited is located at Offshore Chambers, P.O. 217, Apia, Samoa.
- (4) Represents 11,952,120 ordinary shares held by CHX 1 BVI, a BVI company owned as to 58.68% by DQ BVI, 5.21% by Dasui Wang, 5.21% by Zhengjie Sun, 5.21% by Yiming Luo, 4.51% by Haixu Fu, 4.51% by Bei Zhou, 4.17% by Lihong Zhou, 4.17% by Wei Sun, 1.74% by Feiyun Dong, 2.78% by Yuchen Yu, 1.39% by Fei Sun, 1.39% by Jinrong Kang and 1.04% by Zheng'an Wu. The registered office of CHX 1 BVI is located at Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands.
- (5) Represents 7,291,900 ordinary shares held by Intchains ZWM Holding Limited, a BVI company wholly owned by Weimin Zhou. The registered office of Intchains ZWM Holding Limited is located at Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands.
- (6) Represents 7,268,100 ordinary shares held by Yang Feng 888 Capital Limited, a BVI company wholly owned by Feng Yang. The registered office of Yangfeng 888 Holding Limited is located at Vistra Corporate Service Centre, Wickham's Cay II, Road Town, Tortola, VG1110, British Virgin Islands.
- (7) Represents 6,318,800 ordinary shares held by CHX 2 BVI, a BVI company wholly owned by DQ BVI. The registered office of CHX2 BVI is located at Start Chambers, Wickham's Cay II, P. O. Box 2221, Road Town, Tortola, British Virgin Islands.

To our knowledge and based on our review of our register of members as of the date of February 29, 2024, 14,762,114 of our Class A outstanding ordinary shares were held by one record holder in the United States, which is the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holder of our Class A ordinary shares in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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

Not Applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

During the year ended December 31, 2021, we entered into certain short-term loan agreements with Shanghai Pudong Development Bank Co., LTD. New Branch of Shanghai Pilot Free Trade Zone. with aggregated principal amount of RMB5,000,000, which was guaranteed by a controlling shareholder, and his spouse, and an independent third party with the interest fixed rates 4% per annum. The amount was fully repaid on October 25, 2021.

As of December 31, 2020, the amounts due to Mr. Sheng and Mr. Feng Yang, the shareholders of our Group, were RMB4,790,000 and RMB13,000, respectively. These amounts are non-trade in nature, unsecured, interest-free and repayable on demand and were fully repaid in 2021.

During the years ended December 31, 2021, 2022 and 2023, except for disclosed above, we did not conduct any transaction with related parties. As of December 31, 2021, 2022 and 2023, the amount due to (or due from) related parties was nil.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

Please refer to Item 18 for a list of our annual consolidated financial statements filed as part of this annual report on Form 20-F.

Legal Proceedings

From time to time, we may become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property infringement, violation of third-party licenses or other rights, breach of contract and labor and employment claims. Excepts as otherwise disclosed in this annual report, we are currently not a party to, and we are not aware of any threat of, any legal or administrative proceedings that, in the opinion of our management, are likely to have any material and adverse effect on our business, financial condition, cash-flow or results of operations. We may periodically be subject to legal proceedings, investigations and claims relating to our business. We may also initiate legal proceedings to protect our rights and interests.

Dividend Policy

We have not previously declared or paid cash dividends and we have no intention to declare or pay any dividends in the near future on our ordinary shares or the ADSs representing our ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion in deciding whether to distribute dividends. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

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

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries in China. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. If our existing subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Price Range of Our ADSs

Our ADSs are listed for trading on Nasdaq under the symbol “ICG.” Each ADS represents two Class A ordinary shares.

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained under the heading “Description of Share Capital” in our registration statement on Form F-1 (File No. 333-265756) originally filed with the SEC on June 22, 2022, as amended.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company”, “Item 5. Operating and Financial Review and Prospects”, “Item 7. Major Shareholders and Related Party Transactions” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

No foreign exchange controls exist in the Cayman Islands. See “Item 4. Information on the Company—B. Business Overview—Regulation—Laws and Regulations Relating to Other Business Areas.”

E. Taxation

The following is a general summary of the material Cayman Islands, U.S. federal and People's Republic of China income tax consequences relevant to an investment in our ADSs and common shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser or current holders of our ADSs. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address United States state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and common shares.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or common shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2020 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Act (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for us is for a period of twenty years from October 3, 2006.

People's Republic of China Taxation

In 2007 China passed a new Enterprise Income Tax Law, or the EIT Law, and its Implementing Rules, both of which became effective on January 1, 2008. The EIT Law was subsequently amended in 2017 and 2018 and its Implementing Rules was subsequently amended in 2019. The EIT Law created a new "resident enterprise" classification, which, if applied to us, would impose a 10% withholding tax on our non-PRC enterprise shareholders and, pursuant to Circular of the MOF and the SAT on Some Policy Issues regarding Personal Income Tax (Cai Shui Zi [1994] No. 020), the dividend and bonus incomes received by individual aliens from the FIEs are temporarily exempted from individual income tax and hence, the dividends we pay to our non-PRC individual shareholders may be qualified to enjoy the individual income tax exemption if certain conditions are met; otherwise, a potential 20% individual income tax may be applied on dividends we pay to them if such dividends are derived from profits generated after January 1, 2008 and with respect to gains derived by our non-PRC shareholders from disposition of our shares or ADSs, if such dividends or gains are determined to have been derived from sources within China. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Regulations of Our Business — Under the EIT Law, we may be classified as a 'resident enterprise' of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares."

If we are not deemed to be a resident enterprise, then dividends payable to our non-PRC shareholders and gains from disposition of our shares of ADSs by our non-PRC shareholders will not be subject to PRC withholding income tax.

United States Federal Income Taxation

This discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the purchase, ownership and disposition of our ADSs or common shares. This discussion does not address any aspect of U.S. federal gift or estate tax, the Medicare tax, or the state, local or non-U.S. tax consequences of an investment in our ADSs and common shares. This discussion applies to you only if you beneficially own our ADSs or common shares as capital assets for U.S. federal income tax purposes. This discussion does not apply to U.S. Holders who are members of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or certain financial institutions;

- insurance companies;
- tax-exempt organizations;
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or common shares through any such entities;
- regulated investments companies or real estate investment trusts;
- persons that hold ADSs or common shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including ADSs and common shares) entitled to vote.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which we refer to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as of the date of this annual report. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our ADSs and common shares and the nature of our business over time. Finally, this discussion is based in part upon the representation of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

U.S. holders of our ADSs are urged to consult their own tax advisor concerning the particular U.S. federal income tax consequences to them of the purchase, ownership and disposition of our ADSs and common shares, as well as the consequences to them arising under the laws of any other taxing jurisdiction.

For purposes of the U.S. federal income tax discussion below, you are a “U.S. Holder” if you beneficially own ADSs or common shares as capital assets within the meaning of Section 1221 of the Code and are:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

For U.S. federal income tax purposes, income earned through a U.S. or non-U.S. partnership or other flow-through entity is attributed to its owners. Accordingly, if a partnership or other flow-through entity holds ADSs or common shares, the tax treatment of the holder will depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, as described below, applicable to dividends received by certain non-corporate holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate holders could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

Dividends on ADSs or Common Shares

Subject to the “Passive Foreign Investment Company” discussion below, if we make distributions and you are a U.S. Holder, the gross amount of any distributions with respect to your ADSs or common shares (including the amount of any taxes withheld therefrom) will be includible in your gross income on the day you actually or constructively receive such income as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to a reduced capital gains rate of taxation. A non-U.S. corporation (other than passive foreign investment corporation) is treated as a qualified foreign corporation with respect to dividends from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs, which are listed on Nasdaq, but not our common shares, will be readily tradable on an established securities market in the United States. You should consult your own tax advisor as to the rate of tax that will apply to you with respect to dividend distributions, if any, that you receive from us.

Subject to the “Passive Foreign Investment Company” discussion below, to the extent, if any, that the amount of any distribution by us on ADSs or common shares exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder’s adjusted tax basis in the ADSs or common shares and thereafter as capital gain. However, we do not intend to calculate our earnings and profits according to U.S. federal income tax principles. Accordingly, distributions on our ADSs or common shares, if any, will generally be reported to you as dividend distributions for U.S. tax purposes. Corporations will not be entitled to claim a dividends-received deduction with respect to distributions made by us. Dividends may constitute foreign source passive income for purposes of the U.S. foreign tax credit rules. You should consult your own tax advisors as to your ability, and the various limitations on your ability, to claim foreign tax credits in connection with the receipt of dividends.

Sales and Other Dispositions of ADSs or Common Shares

Subject to the “Passive Foreign Investment Company” discussion below, when you sell or otherwise dispose of ADSs or common shares, you will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADSs or common shares. Any such gains or losses that you recognize will be treated as U.S. source income for foreign tax credit purposes. Your adjusted tax basis will equal to the amount you paid for the ADSs or common shares. Any gain or loss you recognize will be long-term capital gain or loss if your holding period in our ADSs or common shares is more than one year at the time of disposition. If you are a non-corporate U.S. Holder, including an individual, any such long-term capital gain will be taxed at preferential rates. Your ability to deduct capital losses will be subject to various limitations.

Passive Foreign Investment Company

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2023. PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any taxable year.

We will be classified as a PFIC in any taxable year, in general, if either: (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For purposes of the first test: (a) any cash and cash invested in short-term, interest bearing, debt instruments, or bank deposits that are readily convertible into cash will count as producing passive income or held for the production of passive income, and (b) the total value of our assets is calculated based on our market capitalization. However, various exceptions can apply.

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

If we were a PFIC for any taxable year during which you held ADSs or common shares, certain adverse U.S. federal income tax rules would apply. You would be subject to additional taxes and interest charges on certain “excess distributions” we make and on any gain realized on the disposition or deemed disposition of your ADSs or common shares, regardless of whether we continue to be a PFIC in the year in which you receive an “excess distribution” or dispose of or are deemed to dispose of your ADSs or common shares. Distributions in respect of your ADSs or common shares during a taxable year would constitute “excess distributions” if, in the aggregate, they exceed 125% of the average amount of distributions with respect to your ADSs or common shares over the three preceding taxable years or, if shorter, the portion of your holding period before such taxable year.

To compute the tax on “excess distributions” or any gain, (a) the “excess distribution” or the gain would be allocated ratably to each day in your holding period, (b) the amount allocated to the current year and any tax year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income in the current year, (c) the amount allocated to other taxable years would be taxable at the highest applicable marginal rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year. In addition, if we were a PFIC, no distribution that you might receive from us would qualify for taxation at the preferential rate discussed in the Item 10.E. “Additional Information — Taxation — Dividends on ADSs or Common Shares” section above.

Under certain attribution rules, if we are a PFIC, you will be deemed to own your proportionate share of lower-tier PFICs, and will be subject to U.S. federal income tax on (a) a distribution on the shares of a lower-tier PFIC and (b) a disposition of shares of a lower-tier PFIC, both as if you directly held the shares of such lower-tier PFIC.

Each U.S. Holder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require and may be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or common shares and any gain realized on the disposition of the ADSs or common shares. You should consult with your own tax advisor regarding reporting requirements with regard to your ADSs and common shares.

If we were a PFIC in any year, you would generally be able to avoid the “excess distribution” rules described above by making a timely so-called “mark-to-market” election with respect to your ADSs provided our ADSs are “marketable.” Our ADSs will be “marketable” as long as they remain regularly traded on a national securities exchange, such as Nasdaq. If you made this election in a timely fashion, you would recognize as ordinary income or ordinary loss the difference between the fair market value of the ADSs as of the close of your taxable year over your adjusted basis in such ADSs. Any ordinary income resulting from this election would be taxed as ordinary income rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADSs would be adjusted to reflect any such income or loss. You should consult your own tax advisor regarding potential advantages and disadvantages to you of making a “mark-to-market” election with respect to your ADSs. The mark-to-market election will not be available for any lower tier PFIC that is deemed owned pursuant to the attribution rules discussed above. We do not intend to provide you with the information you would need to make or maintain a “Qualified Electing Fund” election and therefore, you will not be able to make or maintain such an election with respect to your ADSs or common shares.

U.S. Information Reporting and Backup Withholding Rules

Dividend payments with respect to the ADSs or common shares and the proceeds received on the sale or other disposition of ADSs or common shares may be subject to information reporting to the IRS and to backup. Backup withholding will not apply, however, if you (a) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (b) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will be required to provide certification on IRS Form W-9. Backup withholding is not an additional tax. The amount of any backup withholding will generally be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the IRS. Certain individuals holding the ADSs or common shares other than in an account at a U.S. financial institution may be subject to additional information reporting requirements.

PROSPECTIVE PURCHASERS OF OUR ADSS AND COMMON SHARES SHOULD CONSULT THEIR OWN TAX ADVISOR REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF OUR ADSS AND COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON-US JURISDICTION AND INCLUDING ESTATE, GIFT AND INHERITANCE LAWS.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 as amended.

We have filed this annual report on Form 20-F with the SEC under the Exchange Act. Statements made in this annual report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this annual report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC’s regional offices in New York, New York and Chicago, Illinois. You also can request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC’s Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiaries Information

Not applicable.

J. Annual Report to Security Holders.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and interest-earning instruments. We have not used derivative financial instruments in our investment portfolio. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, in the future, the fair market value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Concentration of Customers and Suppliers

Our customer base consists of distributors located in the PRC. For the year ended December 31, 2021, we had three customers each accounted for over 10% of our revenue, accounting for 24.6%, 22.9% and 17.8%, respectively, of our revenue. For the year ended December 31, 2022, we had three customers each accounted for over 10% of our total revenue, accounting for 47.3%, 33.3% and 17.4%, respectively. For the year ended December 31, 2023, we had two customers each accounted for over 10% of our revenue, accounting for 56.2% and 41.9%, respectively, of our revenue. As a fabless IC design company, we do not own any IC fabrication facilities. A leading semiconductor foundry has been our major third-party foundry partner for our ASIC chips business. For the years ended December 31, 2021, 2022 and 2023, the value of the ICs we purchased from such foundry partner accounted for 45.3%, 49.6% and 66.0%, respectively, of our total procurement for the respective periods.

Concentration of Credit Risk

Financial instruments that may potentially subject us to significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, interest receivables. As of December 31, 2022 and 2023, a majority of our cash and cash equivalents, short-term investments, interest receivables were held at reputable financial institutions with high-credit ratings. In the event of bankruptcy of one of these financial institutions, we may not be able to claim its cash and demand deposits back in full. We continue to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions.

Foreign Exchange Risk

Because majority of our revenues and expenditures are denominated in Renminbi, fluctuations in the exchange rate between the U.S. dollar and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future. The functional currency of our offshore entities and subsidiaries, including Intchains Group Limited, Intchains Investment (BVI) Limited, Intchains Global Limited, Intchains Technology (Hongkong) Limited, Intchains Pte. Ltd. and Intchains Capital Limited, is the U.S. dollar, which results in our exposure to foreign currency risk.

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

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollars between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollars was stable and traded within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund completed its regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi depreciated significantly in the backdrop of a surging U.S. dollars and persistent capital outflows from China. This depreciation halted in 2017, and the Renminbi appreciated approximately 7% against the U.S. dollars during this one-year period. Starting from the beginning of 2019, the Renminbi has depreciated significantly against the U.S. dollars again. In early August 2019, the PBOC set the Renminbi's daily reference rate at RMB7.0039 to US\$1.00, the first time that the exchange rate of Renminbi to U.S. dollars exceeded 7.0 since 2008. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollars in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollars in the future.

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

Inflation

China has generally not experienced significant inflation in recent years. According to China's National Bureau of Statistics, the changes in China's consumer price index was 0.9%, 2.0% and 0.2% in the years 2021, 2022 and 2023, respectively. Neither inflation nor deflation has had a material impact on our results of operations to date, and we do not currently expect the recent inflation in China to have a significant effect on our operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees Payable by ADS Holders

Deutsche Bank Trust Company Americas, the depositary of our ADR program, collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. Such fees are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary service fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. In the case of cash distributions, the depositary fees are generally deducted from the cash being distributed. In the case of distributions other than cash (e.g. stock dividends, rights, etc.), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or in DRS), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the settlement systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

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

An ADS holder is required to pay the following service fees to the depositary:

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

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

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

Fees and Other Payments Made by the Depositary to Us

We had received from our depositary a reimbursement of nil during the fiscal year ended December 31, 2023.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our management has concluded that, as of December 31, 2023, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023 using criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that the internal control over financial reporting was effective as of December 31, 2023 based on the criteria established in this Internal Control-Integrated Framework (2013).

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

Save as disclosed elsewhere in this annual report, there were no significant changes in our internal control over financial reporting that occurred during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation of the Material Weaknesses in Internal Control

As of the date of this annual report, we have taken certain remedial measures to remedy the material weaknesses in our internal control over financial reporting and governance previously identified by us and our independent registered public accounting firms in connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2021.

For the year ended December 31, 2021, the material weaknesses as identified included (a) insufficient internal control over financial reporting due to (i) inadequate segregation of duties and effective risk assessment; (ii) lack of personnel adequately trained in U.S. GAAP; and (iii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC guidelines for reporting and compliance; and (b) we do not have control in place to ensure that all board meetings are documented in the meeting minutes.

To remedy the identified material weaknesses, we have adopted a number of measures to improve our internal control over financial reporting and governance, including, among others: (i) hiring additional financial personnel experienced in U.S. GAAP, (ii) implementing and maintaining policies and procedures in our local server in connection with accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC guidelines for reporting and compliance; (iii) enhancing our documentation, and preparation and approval procedures for the meetings of our board of directors; and (iv) strengthening cash management including requiring preparers and reviewers to sign bank reconciliations. We will continue to take remedial measures to correct our internal control deficiencies and ensure that the company's internal controls meet the compliance requirements stipulated in section 404 of the Sarbanes-Oxley Act.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of Mr. Conway Kong-Wai Lee, Dr. Qingyang Gu and Dr. Weiping Ma, and is chaired by Mr. Conway Kong-Wai Lee. Our board of directors has determined that Mr. Conway Kong-Wai Lee, Dr. Qingyang Gu and Dr. Weiping Ma are “independent directors” within the meaning of Nasdaq Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Rule 10A-3(b) of the Exchange Act. Mr. Conway Kong-Wai Lee meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that is applicable to all of our directors, officers, employees and advisors. In addition, our board of directors adopted a code of conduct that is applicable to our directors, officers, employees and advisors. Our code of ethics and our code of conduct are publicly available on our website, <http://www.intchains.com>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEE AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Mazars USA LLP, our principal accountant for the periods presented.

	For the fiscal year ended		
	December 31, 2022	December 31, 2023	
	RMB'000	RMB'000	US\$'000
Audit fees ⁽¹⁾	3,680	4,275	602
Audit related fees ⁽²⁾	—	2,266	319
Total	3,680	6,541	921

(1) “Audit fees” means the aggregate fees billed or to be billed for each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our IPO registration statement and annual financial statements, as well as assistance with and review of documents filed with the SEC and other statutory and regulatory filings.

- (2) “Audit-Related Fees” represents the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal accountant reasonably related to the performance of the audit or review of our financial statements and are not included under Audit Fees.

Our audit committee is responsible for the oversight of our independent accountants’ work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by Mazars USA LLP, including audit services, audit-related services, tax services and other services, as described above.

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

None.

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

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer with shares listed on Nasdaq, we are subject to corporate governance requirements imposed by Nasdaq. Under Nasdaq Stock Market Rule 5615(a)(3), a foreign private issuer such as us may follow its home-country corporate governance practices in lieu of certain of the Nasdaq Stock Market Rules corporate governance requirements. We are committed to a high standard of corporate governance. As such, we strive to comply with most of the Nasdaq corporate governance practices. However, certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We intend to follow Cayman Islands corporate governance practices in lieu of the corporate governance requirements of the Nasdaq that listed companies must have:

- have a nomination and corporate governance committee composed entirely of independent directors;
- have a compensation committee composed entirely of independent directors;
- provide an annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the Nasdaq;
- have regularly scheduled executive sessions with only independent directors; or
- seek shareholder approval for (a) the implementation and material revisions of the terms of share incentive plans; (b) the issuance of more than 1% of our outstanding ordinary shares or more than 1% of our outstanding voting power to a related party; (c) the issuance of more than 20% of our outstanding ordinary shares; and (d) an issuance that would result in a change of control.

As a result of our reliance on the “foreign private issuer” or the “controlled company” exemptions, our shareholders may be afforded less protection than they otherwise would enjoy under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Related to the ADSs—As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the requirements of the Nasdaq; these practices may afford fewer protection to shareholders than they would enjoy if we complied fully with the Nasdaq.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

We have adopted insider trading policies governing the purchase, sale, and other dispositions of our securities by directors, senior management, and employees. A copy of the insider trading policies is filed as an exhibit to this annual report.

ITEM 16K. CYBERSECURITY

Cybersecurity Risk Management and Strategy

To maintain a consistently high level of service experience for our clients, preserve the confidentiality, integrity, and availability of our information systems, safeguard our assets, data, intellectual property, and network infrastructure, while meeting regulatory requirements, it is crucial to effectively manage cybersecurity risks. To achieve this, we have implemented a comprehensive cybersecurity risk management framework, which is integrated in our overall enterprise risk management system and processes and is internally managed.

Our dedicated cybersecurity staff is tasked with assessing, identifying and managing risks related to cybersecurity threats and, under the leadership of our head of cybersecurity, is responsible for

- risk assessments designed to help identify material cybersecurity risks to our critical systems, information, products, services, and our broader enterprise IT environment;
- development of risk-based action plans to manage identified vulnerabilities and implementation of new protocols and infrastructure improvements;
- cybersecurity incident investigations;
- monitoring threats to sensitive data and unauthorized access to our systems;
- secure access control measures applied to critical IT systems, equipment and devices, designed to prevent unauthorized users, processes, and devices from accessing IT systems and data;
- developing and executing protocols to ensure that information regarding cybersecurity incidents is promptly shared with the board of directors, as appropriate, to allow for risk and materiality assessments and to consider disclosure and notice requirements; and
- developing and implementing training on cybersecurity, information security and threat awareness.

There were no cybersecurity incidents during the year ended December 31, 2023, that resulted in an interruption to our operations, known losses of any critical data or otherwise had a material impact on our strategy, financial condition or results of operations. However, the scope and impact of any future incident cannot be predicted. See “Item 3D—Risk Factors” for more information on how material cybersecurity attacks may impact our business.

Governance

Our board of directors acknowledges the significance of robust cybersecurity management programs and actively participates in overseeing and reviewing our cybersecurity risk profile and exposures.

The board of directors receives reports on cybersecurity risks, including recent legislative developments and evolving standards on cybersecurity, key issues, priorities and challenges in our cybersecurity management, and relevant data or metrics. The board of directors also receives prompt and timely information regarding any significant cybersecurity incidents, as well as ongoing updates regarding any such incidents. Furthermore, in the event of any significant updates or adjustments to our cybersecurity related policies, the head of cybersecurity will present them to the board of directors for their review and approval.

Our head of cybersecurity leads the overall assessment, identification and management of risks related to cybersecurity threats. He works collaboratively within our Group and receives regular briefings on cybersecurity matters, such as report on cybersecurity incidents and responses and remedial measures. He has more than 10 years of relevant experience in risk management, cybersecurity and information technology.

Our head of cybersecurity and their dedicated staff are responsible for the daily management of our cybersecurity efforts. This includes updates and refinement of cybersecurity policies, execution and management of cybersecurity measures, and the preparation of regular reports on cybersecurity execution. Their primary focus is to consistently update our cybersecurity programs and mitigation strategies, ensuring they align with industry best practices and procedures.

PART III.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements are included at the end of this annual report.

ITEM 19. EXHIBITS**Index to Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
1.1	<u>Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 to our registration statement on Form F-1/A (File No. 333-265756) filed with the SEC on July 26, 2022)</u>
2.1	<u>Form of Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 to our registration statement on Form F-1/A (File No. 333-265756) filed with the SEC on July 26, 2022)</u>
2.2	<u>Form of Deposit Agreement, among the Registrant, the Depository and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to our registration statement on Form F-1/A (File No. 333-265756) filed with the SEC on July 26, 2022)</u>
4.1	<u>Share Incentive Plan (incorporated by reference to Exhibit 10.1 to our registration statement on Form F-1/A (File No. 333-265756) filed with the SEC on July 26, 2022)</u>
4.2	<u>Form of Indemnification Agreement between the Registrant and its directors (incorporated by reference to Exhibit 10.2 to our registration statement on Form F-1 (File No. 333-265756) filed with the SEC on June 22, 2022)</u>
4.6	<u>Form of Employment Agreement between the Registrant and an executive officer of the Registrant (incorporated by reference to Exhibit 10.3 to our registration statement on Form F-1 (File No. 333-265756) filed with the SEC on June 22, 2022)</u>
8.1	<u>List of Subsidiaries (incorporated by reference to Exhibit 21.1 to our registration statement on Form F-1 (File No. 333-265756) filed with the SEC on June 22, 2022)</u>
11.1	<u>Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.1 to our registration statement on Form F-1 (File No. 333-265756) filed with the SEC on June 22, 2022)</u>
12.1*	<u>Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of Jingtian & Gongcheng</u>
16.1*	<u>Statement of Policies Governing Material Non-Public Information and the Prevention of Insider Trading</u>
97.1*	<u>Compensation Recoupment Policy of Intchains Group Limited</u>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Intchains Group Limited

/s/ Qiang Ding

Name: Qiang Ding

Title: Chairman and Chief Executive Officer

Date: March 18, 2024

INTCHAINS GROUP LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm (Mazars USA LLP, New York, NY, PCAOB ID 339)</u>	F-2
<u>Consolidated balance sheets as of December 31, 2022 and 2023</u>	F-3
<u>Consolidated statements of operations and comprehensive income/(loss) for the years ended December 31, 2021, 2022 and 2023</u>	F-4
<u>Consolidated statements of changes in shareholders' equity for the years ended December 31, 2021, 2022 and 2023</u>	F-5
<u>Consolidated statements of cash flows for the years ended December 31, 2021, 2022 and 2023</u>	F-6
<u>Notes to the consolidated financial statements</u>	F-7

Report Of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of Intchains Group Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Intchains Group Limited and Subsidiaries (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the consolidated financial statement present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Mazars USA LLP

We have served as the Company’s auditor since 2021.
New York, New York
March 18, 2024

INTCHAINS GROUP LIMITED
CONSOLIDATED BALANCE SHEETS

As of December 31, 2022 and 2023

	Note	As of December 31,		
		2022	2023	
		RMB	RMB	US\$ (Note 2(f))
(in thousands, except share and per share data)				
ASSETS				
Current assets:				
Cash and cash equivalents	4	712,231	694,750	97,854
Inventories, net	5	77,782	41,767	5,883
Prepayments and other current assets, net	6	41,968	47,403	6,678
Short-term investments	7	—	13,596	1,915
Total current assets		831,981	797,516	112,330
Non-current assets:				
Cryptocurrency		—	645	91
Property, equipment, and software, net	8	6,965	49,184	6,926
Intangible assets, net	9	—	3,425	482
Right-of-use assets	10	1,329	1,735	244
Deferred tax assets	17	—	12,899	1,817
Prepayments on long-term assets	11	112,856	113,425	15,976
Other non-current assets		—	421	59
Total non-current assets		121,150	181,734	25,595
Total assets		953,131	979,250	137,925
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable		2,903	195	27
Contract liabilities	2(n)	6	9,828	1,384
Income tax payable		2,239	1,634	230
Lease liabilities	10	972	1,103	155
Provision for warranty		223	40	6
Accrued liabilities and other current liabilities	12	12,855	15,364	2,165
Total current liabilities		19,198	28,164	3,967
Non-current liabilities:				
Deferred tax liabilities	17	42	—	—
Lease liabilities	10	294	761	107
Total non-current liabilities		336	761	107
Total liabilities		19,534	28,925	4,074
Shareholders' equity				
Ordinary shares (US\$0.000001 par value; 50,000,000,000 shares authorized, 117,647,000 and 119,876,032 shares issued and outstanding as of December 31, 2022 and 2023, respectively)	13	1	1	—
Subscriptions receivable from shareholders	13	(1)	(1)	—
Additional paid-in capital		144,577	186,262	26,235
Statutory reserve		47,478	48,265	6,798
Accumulated other comprehensive income		—	1,838	259
Retained earnings		741,542	713,960	100,559
Total equity		933,597	950,325	133,851
Total liabilities and shareholders' equity		953,131	979,250	137,925

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

INTCHAINS GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

For the year ended December 31, 2021, 2022 and 2023

	Note	For the year ended December 31,			
		2021 RMB	2022 RMB	2023 RMB	US\$ (Note 2(f))
		(in thousands, except share and per share data)			
Products revenue	15	631,838	473,740	82,225	11,581
Cost of revenue		(113,955)	(87,021)	(73,147)	(10,302)
Gross profit		517,883	386,719	9,078	1,279
Operating expenses:					
Research and development expenses		(53,153)	(48,387)	(42,304)	(5,958)
Sales and marketing expenses		(3,006)	(4,070)	(6,532)	(920)
General and administrative expenses		(14,403)	(11,557)	(25,210)	(3,551)
Total operating expenses		(70,562)	(64,014)	(74,046)	(10,429)
Income/(loss) from operations		447,321	322,705	(64,968)	(9,150)
Interest income		2,518	11,132	16,750	2,359
Foreign exchange gain/(loss), net		(238)	3,494	(524)	(74)
Other income, net ⁽²⁾	16	543	29,726	13,191	1,856
Income/(loss) before income tax expenses		450,144	367,057	(35,551)	(5,009)
Income tax (expense)/benefit	17	—	(11,856)	8,756	1,233
Net income/(loss)		450,144	355,201	(26,795)	(3,776)
Foreign currency translation adjustment, net of nil tax		—	—	1,838	259
Total comprehensive income/(loss)		450,144	355,201	(24,957)	(3,517)
Weighted average number of shares used in per share calculation⁽¹⁾:					
— Basic and diluted	19	100,870,300	117,647,000	119,387,937	119,387,937
Net earnings/(loss) per share					
— Basic and diluted	19	4.46	3.02	(0.22)	(0.03)

Note:

- (1) Retroactively restated for the stock subdivision as described in Note 1.
- (2) The reclassification of amortization of other income and interest expense and guarantee fee to other income, net can be referenced in Note 2(ad).

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

INTCHAINS GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2021, 2022 and 2023

	Ordinary Shares ⁽¹⁾		Subscription receivables from shareholders	Additional paid-in capital	Statutory reserve	Accumulated other comprehensive income	Retained earnings/ (accumulated deficit)	Total
	Number of Shares	Amount						
	(in thousands, except share and per share data)							
Balance as of January 1, 2021	100,000,000	1	(1)	50,518	—	—	(16,325)	34,193
Issuance of ordinary shares	17,647,000	— *	—	100,000	—	—	—	100,000
Net income and total comprehensive income for the year	—	—	—	—	—	—	450,144	450,144
Appropriations to statutory reserve	—	—	—	—	43,674	—	(43,674)	—
Capital injection	—	—	—	4,000	—	—	—	4,000
Contribution from the then shareholder for the reorganization	—	—	—	602	—	—	—	602
Distribution from the then shareholders for the reorganization	—	—	—	(10,543)	—	—	—	(10,543)
Balance as of December 31, 2021	117,647,000	1	(1)	144,577	43,674	—	390,145	578,396
Balance as of January 1, 2022	117,647,000	1	(1)	144,577	43,674	—	390,145	578,396
Net income and total comprehensive income for the year	—	—	—	—	—	—	355,201	355,201
Appropriations to statutory reserve	—	—	—	—	3,804	—	(3,804)	—
Balance as of December 31, 2022	117,647,000	1	(1)	144,577	47,478	—	741,542	933,597
Balance as of January 1, 2023	117,647,000	1	(1)	144,577	47,478	—	741,542	933,597
Issuance of ordinary shares	2,229,032	— *	—	38,211	—	—	—	38,211
Share-based compensation expense	—	—	—	3,474	—	—	—	3,474
Net (loss) for the year	—	—	—	—	—	—	(26,795)	(26,795)
Foreign currency translation	—	—	—	—	—	1,838	—	1,838
Appropriations to statutory reserve	—	—	—	—	787	—	(787)	—
Balance as of December 31, 2023	119,876,032	1	(1)	186,262	48,265	1,838	713,960	950,325

Note:

(1) Retroactively restated for the stock subdivision as described in Note 1.

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

* Represents amount less than RMB 1,000.

INTCHAINS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2021, 2022 and 2023

	For the year ended December 31,			
	2021	2022	2023	
	RMB	RMB	RMB	US\$
	(in thousands)			
	(Note 2(f))			
Cash flows from operating activities				
Net income/(loss)	450,144	355,201	(26,795)	(3,776)
Adjustments to reconcile net income to net cash provided by operating activities:				
Share-based compensation expense	—	—	3,474	489
Depreciation and amortization of property, equipment and software	553	1,807	3,830	539
Inventory provision	—	1,378	24,574	3,462
Write-down of prepayments	—	—	141	20
Deferred income tax expense/(benefit)	—	42	(12,941)	(1,823)
Investment income	—	—	(7)	(1)
Changes in fair value of short-term investments	—	—	(174)	(25)
Impairment loss of cryptocurrency	—	—	34	5
Loss on disposal of property, equipment and software	—	—	4	1
Interest expense and guarantee fee	113	—	—	—
Foreign exchange gain	—	—	843	119
Changes in assets and liabilities:				
Decrease in accounts receivable	6,530	—	—	—
Decrease/(Increase) in inventories	(57,337)	(12,342)	11,441	1,611
(Increase) in prepayments and other current assets	(30,508)	(3,844)	(23,546)	(3,316)
(Increase) Other non-current assets	—	—	(421)	(59)
Increase/(Decrease) in accounts payable	5,962	(3,680)	(2,708)	(381)
Increase/(Decrease) in contract liabilities	3,002	(2,996)	9,822	1,383
Change in right-of-use assets and lease liabilities ⁽¹⁾	(74)	11	192	27
Increase/(Decrease) in income tax payable	—	2,239	(605)	(85)
(Decrease) in provision for warranty	—	(240)	(183)	(26)
Increase/(Decrease) in accrued liabilities and other liabilities	17,035	(10,891)	8,317	1,171
Net cash provided by/(used in) operating activities	<u>395,420</u>	<u>326,685</u>	<u>(4,708)</u>	<u>(665)</u>
Cash flows from investing activities:				
Payment for short-term investments	—	—	(14,054)	(1,979)
Proceeds from disposal of short-term investments	—	—	639	90
Purchase of cryptocurrency	—	—	(679)	(96)
Purchase of property, equipment and software	(1,770)	(4,018)	(46,898)	(6,605)
Purchase of intangible assets	—	—	(3,425)	(482)
Prepayments on long-term assets	—	(112,856)	(569)	(80)
Net cash used in investing activities	<u>(1,770)</u>	<u>(116,874)</u>	<u>(64,986)</u>	<u>(9,152)</u>
Cash flows from financing activities:				
Proceeds from issuance of ordinary shares	100,000	—	61,306	8,636
Payment for cost of issuance	—	—	(10,088)	(1,421)
Proceeds from capital contribution in a subsidiary from a shareholder	4,000	—	—	—
Proceeds from short-term debts	5,000	—	—	—
Repayment of short-term debts	(5,000)	—	—	—
Interest expense and guarantee fee	(113)	—	—	—
Contribution from the then shareholder for the reorganization	602	—	—	—
Distribution to the then shareholders for the reorganization	(10,543)	—	—	—
Amounts from to a related party	(4,803)	—	—	—
Net cash provided by financing activities	<u>89,143</u>	<u>—</u>	<u>51,218</u>	<u>7,215</u>
Net increase/(decrease) in cash and cash equivalents	<u>482,793</u>	<u>209,811</u>	<u>(18,476)</u>	<u>(2,602)</u>
Effect of exchange rate changes on cash and cash equivalent	—	—	995	140
Cash and cash equivalents, at the beginning of year	19,627	502,420	712,231	100,316
Cash and cash equivalents at the end of year	<u>502,420</u>	<u>712,231</u>	<u>694,750</u>	<u>97,854</u>
Supplemental disclosure of cash flow information:				
Cash paid for interest	92	—	—	—
Cash paid for guarantee fee	21	—	—	—
Cash paid for income taxes	—	9,575	4,790	675
Supplemental disclosure of non-cash investing activities:				
Purchases of property, equipment, and software included in accrued liabilities and other liabilities	—	3,131	1,224	172

Note:

- (1) The reclassification of amortization of right-of-use assets and (decrease) in lease liabilities to changes in right-of-use assets and lease liabilities can be referenced in Note 2(ad).

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

INTCHAINS GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and principal activities

(a) Principal activities

Intchains Group Limited (the “Company” or “Parent Company”), an exempted company with limited liability incorporated in the Cayman Islands and its subsidiaries are collectively referred to as the “Group”. The Group are principally engaged in integrated circuit (the “IC”) design and sale of application-specific IC (the “ASIC”) chips and the solution based on these chips in the People’s Republic of China (the “PRC”).

Intchains DQ Asset Holding Limited and Intchains SCH Holding Limited, limited liability companies incorporated in the British Virgin Islands (the “BVI”), are the ultimate holding companies of the Company and are owned by Mr. Qiang Ding (“Mr. Ding”) and Mr. Chaohua Sheng (“Mr. Sheng”). Mr. Ding and Mr. Sheng are the ultimate controlling shareholders (collectively, the “Controlling Shareholders” or the “Co-Founders”) of the Company.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

<u>Name of subsidiaries</u>	<u>Date of incorporation</u>	<u>Place of incorporation</u>	<u>Equity interest held</u>	<u>Principal activities</u>
Intchains Global Limited	October 29, 2021	The BVI	100%	Investment Holding
Intchains Pte. Ltd.	November 17, 2021	Singapore	100%	Research and development of ICs
Intchains Investment (BVI) Limited	July 1, 2021	The BVI	100%	Investment Holding
Intchains Technology (Hongkong) Limited	July 16, 2021	Hong Kong	100%	Investment Holding and Trading business
Jerryken Intelligent Technology (Shanghai) Co., Ltd.	September 28, 2021	Shanghai, China	100%	Research and development of ICs
Shanghai Intchains Technology Co., Ltd.	December 13, 2017	Shanghai, China	100%	Research and development of ICs
Shanghai Lianfa Information Technology Co., Ltd.	September 9, 2021	Shanghai, China	100%	Research and development of ICs
Shanghai Xinbaiwei Smart Technology Co., Ltd.	October 22, 2021	Shanghai, China	100%	Research and development of ICs
Yancheng Intchains Technology Co., Ltd.*	July 19, 2019	Yancheng, China	100%	Research and development of ICs
Shanghai Intchains Technology (Hong Kong) Company Limited.*	August 2, 2018	Hong Kong	100%	Trading business
Intchains Capital Limited	May 17, 2023	Cayman Islands	100%	Investment Holding

* Yancheng Intchains Technology Co., Ltd. was de-registered on September 17, 2021. Shanghai Intchains Technology (Hong Kong) Company Limited was transferred to an independent third party with consideration of RMB10,000 on August 19, 2021, the disposal loss was immaterial.

(b) Reorganization and stock subdivision

Prior to the incorporation of the Company, the Group's business was carried out by Shanghai Intchains Technology Co., Ltd. ("Shanghai Intchains") and its subsidiaries. Shanghai Intchains was established by the Co-Founders and other minor shareholders. Yancheng Intchains Technology Co., Ltd. and Shanghai Intchains Technology (Hong Kong) Company Limited were then subsidiaries of Shanghai Intchains. To facilitate offshore financing, an offshore corporate structure was formed in December 2021 (the "Reorganization"), which was carried out as follows:

- 1) On June 28, 2021, the Company was incorporated in the Cayman Islands by the Controlling Shareholders and other minor shareholders of Shanghai Intchains*.
- 2) On July 1, 2021, Intchains Investment (BVI) Limited was incorporated in the BVI.
- 3) On July 16, 2021, Intchains Technology (Hongkong) Limited was incorporated in Hong Kong.
- 4) On September 9, 2021, Shanghai Lianfa Information Technology Co., Ltd. was incorporated in Shanghai, the PRC.
- 5) On September 28, 2021, Jerryken Intelligent Technology (Shanghai) Co., Ltd. ("Jerryken Shanghai") was incorporated in Shanghai, the PRC.
- 6) On October 9, 2021, Golden Stone Hong Kong Holding Limited ("Golden Stone HK"), a Hong Kong company wholly-owned by an independent third party, acquired a 1% equity interest in Shanghai Intchains at a consideration of US\$94,192.
- 7) On October 22, 2021, Shanghai Xinbaiwei Smart Technology Co., Ltd. was incorporated in Shanghai, the PRC.
- 8) On October 29, 2021, Intchains Global Limited was incorporated in the BVI.
- 9) On November 2, 2021, Jerryken Shanghai acquired approximately 82.49% equity interest in Shanghai Intchains at a consideration of RMB 49.4949 million.
- 10) On December 6, 2021, Jerryken Shanghai acquired the 0.18% equity interest in Shanghai Intchains from Golden Stone HK at a cash consideration of RMB 0.1055 million and the remaining 17.33% equity interest in Shanghai Intchains from its other shareholders at an aggregate cash consideration of RMB 10.4375 million, which was recorded as deemed distribution to these shareholders. Shanghai Intchains then became a wholly-owned subsidiary of Jerryken Shanghai.
- 11) On July 8, 2022, the Company effected 100 for 1 stock subdivision.

* As the shareholdings in the Company and Shanghai Intchains were with a high degree of common ownership immediately before and after the Reorganization, even though no single investor controlled the Group, the transaction of the Reorganization was determined as recapitalization with lack of economic substance, and was accounted for in a manner similar to a common control transaction. Consequently, the financial information of the Group is presented on a carryover basis for all periods presented. The accompanying consolidated financial statements have been prepared as if the current corporate structure has been in existence throughout the periods presented. The consolidation of the Company has been accounted for at historical cost at the beginning of the first period presented in the accompanying consolidated financial statements. The number of outstanding shares in the consolidated balance sheets, the consolidated statements of changes in shareholders' equity, and per share information including the net (losses)/earnings per share have been presented retrospectively as of the beginning of the earliest period presented on the consolidated financial statements to reflect the final shares immediately after the stock subdivision on July 8, 2022.

2. Principal Accounting Policies

(a) Basis of presentation

Pursuant to the reorganization as disclosed in Note 1(b), the Company was incorporated on June 28, 2021 and became the holding company of the companies now comprising the Group on December 6, 2021. As the Reorganization only involved inserting new holding entities at the top of an existing company and has not resulted in any change of respective interests of the shareholders, the Consolidated Financial Statement for the reporting periods has been presented as a continuation of the existing company by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the reporting periods.

The consolidated statements of operations and comprehensive income/(loss), consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended December 31, 2021, 2022 and 2023 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at December 31, 2022 and 2023 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances have been eliminated on consolidation.

(b) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

(c) Use of estimates

The preparation of the Group's consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from such estimates.

The Group believes that accounting estimation of recoverability of prepayments to vendors, recoverability of prepayments on long-term assets, impairment on other long-lived assets, valuation of deferred tax assets, write-down for inventories and prepayments, valuation and recognition of share-based compensation and provision for product warranty reflect significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions as discussed elsewhere to the consolidated financial statements that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from these estimates.

(d) Consolidation

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

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

(e) Functional currency and foreign currency translation

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries incorporated outside of PRC is the United States dollar (“US\$”), while the functional currency of the PRC entities in the Group is RMB as determined based on the criteria of ASC 830, *Foreign Currency Matters*.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Financial assets and liabilities denominated in other than the functional currency are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the consolidated statements of operations and comprehensive income as foreign exchange related gains or loss.

The financial statements of the Group are translated from the functional currency to the reporting currency, RMB. Assets and liabilities of the Company and its subsidiaries incorporated outside of PRC are translated into RMB at fiscal year-end exchange rates, income and expense items are translated at average exchange rates prevailing during the fiscal year, representing the index rates stipulated by the People’s Bank of China. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a separate component of shareholders’ equity on the consolidated financial statement. The exchange rates used for translation on December 31, 2022 and 2023 were US\$1.00=RMB 6.9646 and 7.0827, respectively, representing the index rates stipulated by the People’s Bank of China.

(f) Convenience translation

The unaudited United States dollar (“US\$”) amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US\$ for the convenience of the reader were calculated at the noon buying rate of US\$1.00=RMB7.0999 on the last trading day of 2023 (December 29, 2023) as set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

(g) Fair value of financial instruments

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 Group 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, for the assets or liabilities either directly or indirectly.

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.

The Group does not have any non-financial assets or liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Group's financial instruments consist principally of cash and cash equivalents, short-term investments, interest receivables, other receivables, accounts payable and other liabilities.

As of December 31, 2022 and 2023, the carrying values of cash and cash equivalents, interest receivables, other receivables, accounts payable and other liabilities approximated to their fair values reported in the consolidated balance sheets due to the short term nature of these instruments.

On a recurring basis, the Group measures its short-term investments at fair value.

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

	<u>Level 1</u>	<u>Level 2</u> (in thousands)	<u>Level 3</u>
As of December 31, 2023			
Short-term investments:			
U.S. Treasury securities	—	13,596	—

As of December 31, 2022, there was no financial asset that was measured at fair value on a recurring basis.

The Group values its debt securities using observable, market-based input, and accordingly, the Group classifies the debt securities within Level 2.

(h) Cash and cash equivalents

Cash and cash equivalents include cash and demand deposits placed with banks or other financial institutions with no restrictions.

(i) Short-term investments

All highly liquid investments with original maturities less than twelve months are classified as short-term investments. Investments that are expected to be realized in cash during the next twelve months are also included in short-term investments.

The Group accounts for short-term debt investments in accordance with ASC Topic 320, Investments – Debt Securities (“ASC 320”). The Group classifies the short-term investments in debt securities as held-to-maturity, trading or available-for-sale, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized. Securities that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost less allowance for credit losses. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities, in accordance with ASC 320. Unrealized holding gains and losses for trading securities are included in earnings. Debt investments not classified as trading or as held-to-maturity are classified as available-for-sale debt securities, which are reported at fair value, with unrealized gains and losses recorded in “accumulated other comprehensive income/(loss)” on the consolidated balance sheets.

(j) Inventories

The Group's inventories consist of finished goods, work in process and raw materials, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost or net realizable value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving and obsolete inventory, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased.

In accordance with ASC 855-10-55-1(b), the Group considers all data available, including future demand and subsequent changes in product prices that may provide additional information about the valuation of inventories at the balance sheet date.

(k) Property, equipment and software, net

Property, equipment and software are stated at historical cost less accumulated depreciation, amortization and impairment loss, if any. Depreciation and amortization are calculated using the straight-line method over the shorter of their estimated useful lives of these assets or the term of the related leases. The estimated useful lives are as follows:

Leasehold improvements	the shorter of their useful lives or the lease terms
Computers and electronic equipment	3 years
Furniture	3-5 years
Software	3 years
Building	48 years
Building improvement	10 years
Motor vehicles	4 years

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property, equipment and software is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of operations and comprehensive income.

(l) Intangible assets, net

Intangible assets with an indefinite life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets with finite lives are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives of the respective assets. Acquired intangible assets from business combination are recognized and measured at fair value at the time of acquisition. Those assets represent assets with finite lives and are further amortized on a straight-line basis over the estimated economic useful lives of the respective assets. The estimated useful lives of major intangible assets are as follows:

Trademarks	7-10 years
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(m) Impairment of long-lived assets

For other long-lived assets including cryptocurrency, property, equipment and software, intangible assets, right-of-use assets, prepayments on long-term assets, and other non-current assets, the Group evaluates for impairment whenever events or changes (triggering events) indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to receive from use of the assets and their eventual disposition. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(n) Contract liabilities

Cash proceeds received from customers before product delivery is recognized as contract liabilities and is recognized as revenue when revenue recognition criteria are met.

The prepayments received from customers as of December 31, 2022 and 2023 were RMB6,000 and RMB9,828,000, respectively. The revenue recognized during years ended December 31, 2021, 2022 and 2023 for such contract liability was nil, RMB3,002,000 and RMB 6,000, respectively.

(o) Revenue from contracts with customers (ASC 606)

The Group recognizes revenue to match the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services.

Products revenue

The Group generates revenue primarily from the sales of ASIC chips, computing equipment that incorporated the ASIC chips, ancillary software and hardware and other products.

The Group's sales arrangements usually require full prepayment before the delivery of products after April 2021. Before that date, the Group offered credit sales to certain significant, long-standing customers in China. The payment term was up to 6 months.

Generally, the sales of ASIC chips, computing equipment that incorporated the ASIC chips, ancillary software and hardware and other products forms an integral part of the performance obligations. ASIC chips are the most crucial hardware component embedded into the Group's products that provide computing power and are also the key factor determining efficiency of the applications of the Group's products. Other key hardware includes the computing board, control board, and other accessories such as power supply and structural parts. Software is embedded in hardware to provide basic configuration of relevant hardware that enables end-users to monitor the working conditions of the chips in real time, including real-time hash rate, temperature, and network connection. Computing equipment represents the comprehensive integration of software and hardware, incorporated the Group's ASIC chips. All of these components are part of the Group's products with regard to the Group in completing its performance obligations. Therefore, the Group recognizes product revenue at a point in time based on management's evaluation of when the control of the products has been passed to customers. The transfer of control is considered complete when products have been picked up by or deliver to shipper of the Group's customers.

The Group offers a standard product warranty of not longer than six months that the product will operate under normal use. Except for the product warranty, the Group is not obligated to provide significant after-sales service such as hardware/software upgrades or updates. At the time revenue is recognized, an estimate of future warranty costs, is recorded as sales and marketing expenses. The reserves established are regularly monitored based upon historical experience and any actual claims charged against the reserve. The amount of total warranty costs incurred was immaterial for the years ended December 31, 2021, 2022 and 2023, respectively.

(p) Value-added-tax ("VAT") recoverable and surcharges

Value added tax recoverable represent amounts paid by the Group for purchases. The surcharges (i.e., Urban construction and maintenance tax, educational surtax, local educational surtax) were 5%-6% of the value-added-tax depending on the tax payer's location.

(q) Cost of revenue

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue. Cost of revenue consists of product costs, including cost of raw materials, contract manufacturers for production, shipping and handling costs, inventories write-downs and prepayments write-downs.

(r) Research and development expenses

Research and development expenses consist primarily of salary and welfare for research and development personnel, tape-out expenses, consulting and contractor expenses, testing and tooling materials and manufacturing for trial and other expenses in associated with research and development personnel. The Group recognizes research and development expenses as expenses when incurred.

(s) Sales and marketing expenses

Sales and marketing expenses consist primarily of salary and welfare for sales and marketing personnel, traveling expenses and other expenses in associated with sales and marketing personnel.

(t) General and administrative expenses

General and administrative expenses consist primarily of salary and welfare for general and administrative personnel, rental expenses and professional service fees.

(u) Government grants

Government grants represent cash subsidies received from the PRC government. Cash subsidies which have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits are recognized as “other income, net” when received. Total government grants recognized in “other income, net” were RMB 661,000, RMB 29,799,000 and RMB 13,201,000 for the years ended December 31, 2021, 2022 and 2023, respectively, and recognized in “other current liabilities” were RMB 2,520,000, nil and nil as of December 31, 2021, 2022 and 2023, respectively. The amounts recognized under “other current liabilities” represent conditions for obtaining grants are not met but cash subsidies received as of December 31, 2021, 2022 and 2023.

(v) Lease arrangement as lessee

The Group determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) asset, lease liability, and lease liability-non-current in the Group’s consolidated balance sheets. ROU assets represent the Group’s right to use an underlying asset for the lease term and lease liabilities represent the Group’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. When determining the lease term, the Group includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. As the Group’s leases do not provide an implicit rate, the Group uses its incremental borrowing rate, which it calculates based on the credit quality of the Group and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease.

(w) Employee social security and welfare benefits

Employees of the Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Group is required to contribute to the plan based on certain percentages of the employees’ salaries, up to a maximum amount specified by the local government.

The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group’s obligations are limited to the amounts contributed and no legal obligation beyond the contributions made. Employee social security and welfare benefits included as expenses in the consolidated statements of operations and comprehensive income amounted to RMB2,748,000, RMB 5,755,000 and RMB 8,291,000 for the years ended December 31, 2021, 2022 and 2023, respectively.

(x) Income taxes

The Group accounts for income taxes under the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the tax income rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded if it is more likely than not that some portion or all of a deferred income tax assets will not be realized in the foreseeable future.

The Group evaluates its uncertain tax positions using the provisions of ASC 740-10, *Income Taxes*, which prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements. The Group recognizes in the financial statements the benefit of a tax position which is “more likely than not” to be sustained under examination based solely on the technical merits of the position assuming a review by tax authorities having all relevant information. Tax positions that meet the recognition threshold are measured using a cumulative probability approach, at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group reports tax-related interest expense and penalty in “other income, net” in the consolidated statements of operations and comprehensive income, if there is any.

(y) Share-based compensation

The Group applies ASC 718 (“ASC 718”), Compensation—Stock Compensation, to account for its employee share-based payments. In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or an equity award. All of the Group’s share-based awards to employees were classified as equity awards. The Group measures the employee share-based compensation based on the fair value of the award at the grant date. Expense is recognized using accelerated method over the requisite service period.

Share-based compensation in relation to the restricted share units (“RSUs”) is measured based on the fair market value of the Company’s ordinary shares at the grant date of the award. Share-based compensation in relation to the share options is estimated using the Binomial Model. The determination of the fair value of share options is affected by the share price of the Company’s ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these share options was determined by management with the assistance from an independent valuation firm. Share-based compensation expense of awards is recorded net of estimated forfeitures in our consolidated income statements and accordingly is recorded only for those share-based awards that are expected to vest. The Group estimate the forfeiture rate based on historical forfeitures of share-based awards and adjust the rate to reflect changes when necessary. The Group review and revise our estimated forfeiture rate if actual forfeitures significantly differ from the initial estimates.

(z) Statutory reserves

The Group’s subsidiaries incorporated in the PRC are required on an annual basis to make appropriations of retained earnings set at certain percentage of after-tax profit determined in accordance with PRC accounting standards and regulations (“PRC GAAP”).

Appropriation to the statutory reserve should be at least 10% of the after tax net income determined in accordance with the legal requirements in the PRC until the reserve is equal to 50% of the entities’ registered capital. The Group is not required to make appropriation to other reserve funds and the Group does not have any intentions to make appropriations to any other reserve funds.

The general reserve fund can only be used for specific purposes, such as offsetting the accumulated losses, enterprise expansion or increasing the registered capital. Appropriations to the general reserve funds are classified in the consolidated balance sheets as statutory reserves.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to restricted accounts, and the Group has not done so.

Relevant laws and regulations permit payments of dividends by the PRC subsidiaries and affiliated companies only out of their retained earnings, if any, as determined in accordance with respective accounting standards and regulations. Accordingly, the above balances are not allowed to be transferred to the Company in terms of cash dividends, loans or advances.

The Group has made RMB43,674,000, RMB3,804,000 and RMB787,000 appropriations to statutory reserve for the years ended December 31, 2021, 2022 and 2023, respectively.

(aa) (Loss)/Earnings per share

Basic (loss)/earnings per share is computed by dividing net (loss)/income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

Diluted (loss)/earnings per share is calculated by dividing net (loss)/income attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalents shares outstanding during the period. Dilutive equivalent shares are excluded from the computation of diluted (loss)/earnings per share if their effects would be anti-dilutive. Ordinary share equivalents consist of the ordinary shares issuable in connection with the Group’s ordinary shares issuable upon the exercise of outstanding share options, restricted shares units and warrants, using the treasury stock method. The computation of diluted net loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net loss per share. For the years ended December 31, 2021, 2022 and 2023, the number of dilutive shares was all nil.

(ab) Comprehensive income (loss)

Comprehensive income/(loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, Comprehensive Income, requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group's comprehensive income/(loss) includes net income/(loss) and foreign currency translation difference and is presented in the consolidated statements of comprehensive income/(loss). Accumulated other comprehensive income of the Group include the foreign currency translation adjustments.

(ac) Segment reporting

Operating segments are defined as components of an enterprise engaging in businesses activities for which separate financial information is available that is regularly evaluated by the Group's Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and assess performance. The CODM has been identified as the Chief Executive Officer. The CODM reviews consolidated results including revenue, gross profit and operating profit at a consolidated level only for purposes of making operating decisions, allocating resources, and evaluating financial performance. Hence, the Group has only one operating segment and one reportable segment.

All revenue from external customers is derived from Mainland China.

In addition, the Group's long-lived assets are substantially located in the PRC. Accordingly, no segment analysis is provided.

(ad) Reclassification of Presentation in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) and Consolidated Statements of Cash Flows

To optimize the financial reporting process, other income and interest expense and guarantee fee of comparative prior period in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) were reclassified to conform with its current presentation of other income, net in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss). In the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2021 and 2022, we have reclassified (1) RMB197,000 and RMB73,000 respectively of interest expense and guarantee fee to other income, net; and (2) RMB740,000 and RMB29,799,000 respectively of other income to other income, net. The net income/(loss) and total comprehensive income/(loss) for the year ended December 31, 2021 and 2022 were not changed as a result of these reclassifications. Refer to Note 16 for further information on other income, net.

Amortization of right-of-use assets and (decrease) in lease liabilities of comparative prior period in the Group's Consolidated Statements of Cash Flows were reclassified to conform with its current presentation of change in right-of-use assets and lease liabilities in the Group's Consolidated Statements of Cash Flows. In the Group's Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2022, we have reclassified (1) RMB801,000 and RMB946,000 respectively of amortization of right-of-use assets to change in right-of-use assets and lease liabilities; and (2) RMB875,000 and RMB935,000 respectively of (decrease) in lease liabilities to change in right of-use assets and lease liabilities. The net cash provided by/(used in) operating activities for the years ended December 31, 2021 and 2022 were not changed as a result of these reclassifications.

(ae) Recently issued accounting pronouncements

i. New and amended standards adopted by the Group:

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This guidance requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The measurement of expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability. In November 2018, the FASB issued No. ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses ("ASU 2018-19"), which clarifies certain topics included within ASU 2016-13. In November 2019, the FASB issued No. ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates ("ASU 2019-10"), which extends the adoption date for certain registrants. The amendments in ASU 2016-13 and ASU 2018-19 are effective for the Group for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Group adopted this new guidance on January 1, 2023 and it did not have material effect on its consolidated financial statements and related disclosures.

ii. New and amended standards not yet adopted by the Group:

On December 14, 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires that entities disclose specific categories in their rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. The new standard is effective for the Group beginning December 15, 2024, with early adoption permitted. The amendments should be applied on a prospective basis and retrospective application is also permitted. The Group does not expect that the adoption of ASU 2023-09 would have a material effect on its consolidated financial statements and related disclosures.

On December 13, 2023, the FASB issued ASU No. 2023-08, Accounting for and Disclosure of Crypto Assets (“ASU 2023-08”), which requires entities that hold crypto assets to subsequently measure such assets at fair value with changes recognized in net income each reporting period. The guidance also requires crypto assets measured at fair value to be presented separately from other intangible assets on the balance sheet and changes in the fair value measurement of crypto assets to be presented separately on the income statement from changes in the carrying amounts of other intangible assets. The new standard is effective for fiscal years beginning December 15, 2024, with early adoption permitted. The Group is currently evaluating the impact of adopting the standard.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (“ASU 2023-07”), which requires the disclosure of significant segment expenses that are part of an entity’s segment measure of profit or loss and regularly provided to the chief operating decision maker. In addition, it adds or makes clarifications to other segment-related disclosures, such as clarifying that the disclosure requirements in ASC No. 280 are required for entities with a single reportable segment and that an entity may disclose multiple measures of segment profit and loss. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be adopted retrospectively. The Group does not expect that the adoption of ASU 2023-07 would have a material effect on its consolidated financial statements and related disclosures.

3. Risks and concentration

(a) Concentration of credit risk

Financial instruments that may potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, interest receivables. As of December 31, 2022 and 2023, a majority of the Group’s cash and cash equivalents, short-term investments, interest receivables were held at reputable financial institutions with high-credit ratings. In the event of bankruptcy of one of these financial institutions, the Group may not be able to claim its cash and demand deposits back in full. The Group continues to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions.

The Group’s sales arrangements usually require full prepayment before the delivery of products after April 2021. For credit sales, the Group conducts credit evaluations of customers, and generally does not require collateral or other security from its customers. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

Customers which contributed more than 10% of total revenue are as below:

	For the year ended December 31,		
	2021	2022	2023
Customer A	25%	47%	42%
Customer B	23%	33%	1%
Customer C	18%	1%	0%
Customer D	—	17%	1%
Customer E	—	1%	56%

(b) Supplier concentration

The Group currently purchased all of its integrated circuits, an important component of its IC products, from a third-party foundry partner for the years ended December 31, 2021, 2022 and 2023. Although only a limited number of manufacturers for such integrated circuits are available, management believes that other suppliers could provide similar integrated circuits on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would affect operating results adversely.

4. Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits placed with large reputable banks, and highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase with terms of less than three months. The following table sets forth a breakdown of cash and cash equivalents by currency denomination and jurisdiction as of December 31, 2022 and 2023:

	RMB		RMB equivalent USD		RMB equivalent SGD	Total in RMB
	China	Overseas	China	Overseas	Overseas	
December 31, 2022	611,266	95,051	656	79	5,179	712,231
December 31, 2023	576,923	—	115,753	460	1,614	694,750

5. Inventories, net

Inventories consist of the following:

	As of December 31,	
	2022	2023
	(in thousands)	
Finished goods	34,577	36,224
Work in process	10,399	9,756
Raw materials	34,184	20,686
Inventories	79,160	66,666
Less: inventory provision	(1,378)	(24,899)
Total	77,782	41,767

During the years ended December 31, 2021, 2022 and 2023, the Group recognized inventories write-down of nil, RMB1,378,000 and RMB24,574,000 in cost of revenues, respectively. Furthermore, an inventory provision of RMB1,053,000 related to obsolete items, which were determined to be non-replaceable and subsequently scrapped, was reversed.

6. Prepayments and other current assets, net

The current portion of prepayments and other current assets, net consist of the following:

	As of December 31,	
	2022	2023
	(in thousands)	
Prepayments and other current assets, net:		
VAT deductible	2,262	3,989
Prepayments to vendors (Note a)	20,220	33,254
Prepayments of listing expenses (Note b)	17,970	—
Interest receivables	1,200	9,844
Rental and other deposits	72	102
Others	244	214
Total	41,968	47,403

Note a: Prepayments to vendors mainly represent prepayments made to a third-party supplier for foundry service. The Group also records a write-down for the prepayment to third-party suppliers when the Group believes that the net realizable value (being the estimated selling price of final products, less the costs of completion and selling expenses) is less than carrying amount. For the years ended December 31, 2021, 2022 and 2023, the Group recorded write-downs of nil, nil and RMB141,000 for the prepayment to third-party suppliers in cost of revenues.

Note b: The amount represents incremental costs directly attributable to the Company's initial public offering.

7. Short-term investments

Short-term investments consist of the following:

	As of December 31,	
	2022	2023
	(in thousands)	
Debt securities:		
U.S. Treasury securities	—	13,596

As of December 31, 2022 and 2023, the Group's short-term investments comprised of only debt securities. Short-term trading debt securities were U.S. Treasury securities with maturities less than one year, which were bought and held principally for the purpose of selling them in the near term. The cost of U.S. Treasury securities was nil and RMB13,422,000, with net unrealized gain of nil and RMB174,000 recorded in other income, net as of December 31, 2022 and 2023, respectively.

8. Property, equipment and software, net

Property, equipment and software, net consist of the following:

	As of December 31,	
	2022	2023
	(in thousands)	
Cost		
Building	—	42,041
Building improvements	—	1,130
Leasehold improvements	683	156
Computers and electronic equipment	3,475	5,515
Furniture	658	980
Motor vehicles	—	351
Software	5,583	5,308
Total cost	10,399	55,481
Less: Accumulated depreciation and amortization	(3,434)	(6,297)
Property, equipment and software, net	6,965	49,184

For the year ended December 31, 2023, the Group disposed of certain leasehold improvements and furniture as part of an office relocation and disposed certain software that ceased to be used in business operations, without any consideration received for these disposals. These assets, with cost of RMB971,000 and accumulated depreciation and amortization of RMB967,000, were derecognized, resulting in a loss of RMB4,000.

No impairment charge was recorded for the years ended December 31, 2021, 2022 and 2023, respectively.

Depreciation and amortization expenses recognized for the years ended December 31, 2021, 2022 and 2023 are summarized as follows:

	For the year ended December 31,		
	2021	2022	2023
	(in thousands)		
Research and development expenses	442	1,611	3,491
Sales and marketing expenses	8	40	115
General and administrative expenses	103	156	224
Total	553	1,807	3,830

9. Intangible assets, net

Intangible assets consisted of the following:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2023</u>
	(in thousands)	
Amortized intangible assets with finite lives:		
Cost: Trademarks (Note a)	—	3,425
Less: Accumulated depreciation and amortization	—	—
Intangible assets, net	<u>—</u>	<u>3,425</u>

Note a: On December 8, 2023, the Group entered into an asset acquisition agreement with GOLDSHELL PTE. LTD., a Singapore-based company, to acquire specific assets utilized in the operation of its Goldshell WEB3 infrastructure brand (referred to as the “Transaction” hereafter). The consideration for this transaction amounted to USD550,000, fully settled in cash by December 31, 2023. The Transaction was accounted as an asset acquisition, through which the Group acquired three identifiable assets: trademarks, customer relationships, and software. The trademarks are applied and registered in the EU, United States, UK, Hong Kong SAR, and Singapore, with remaining legal lifespans averaging between 7 to 10 years. The total purchase price, encompassing the transaction consideration of USD550,000 and direct transaction costs of USD14,000, amounted to USD564,000 (equivalent to RMB3,994,000), with allocations to trademarks, customer relationships, and software at USD483,000 (equivalent to RMB3,425,000), USD68,000 (equivalent to RMB480,000), and USD13,000 (equivalent to RMB89,000) respectively. As of December 31, 2023, all trademarks have been officially transferred to the Group and were recorded under “intangible assets”, while the transfer process for customer relationships and software was ongoing, with their allocated purchase prices recorded in “prepayments on long-term assets”. On February 28, 2024, the Transaction was completed, as details provided in Note 21.

No impairment charge was recorded for the years ended December 31, 2021, 2022 and 2023, respectively.

As of December 31, 2023, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

Year Ending December 31,	<u>Amounts</u>
	(in thousands)
2024	381
2025	381
2026	381
2027	381
2028 and after	1,901
	<u>3,425</u>

10. Lease

The Group leases facilities under non-cancellable operating leases. The terms of substantially all of these leases are two to three years or less. When determining the lease term, the Group includes options to extend or terminate the lease when it is reasonably certain that it will exercise that option, if any. All of the Group’s leases qualify as operating leases. Variable lease cost and short-term leases (lease terms less than 12 months) are recognized as incurred.

(a) The components of lease expenses were as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(in thousands)		
Lease cost:			
Amortization of right-of-use assets	801	946	1,103
Interest of lease liabilities	84	73	62
Expenses for short-term lease within 12 months	156	(153)	1,075
Total lease cost	<u>1,041</u>	<u>866</u>	<u>2,240</u>

(b) Supplemental cash flow information related to leases was as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(in thousands)		
Cash paid for amounts included in the measurement of lease			
Operating cash flows from operating leases	885	1,008	1,050
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	—	—	2,213
Lease liability settled through termination of lease:			
Operating leases	—	—	627
Right-of-use assets disposed through termination of lease:			
Operating leases	—	—	704

(c) Supplemental balance sheet information related to leases was as follows:

	<u>As of December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
Weighted-average remaining lease term			
Operating leases	30.00 months	18.55 months	21.00 months
Weighted-average discount rate			
Operating leases	4% per annum	4% per annum	4% per annum

(d) Maturities of lease liabilities were as follows:

	<u>As of December 31,</u>
	<u>2023</u>
	(in thousands)
Year Ending December 31,	
2024	1,159
2025	773
Total undiscounted lease payments	1,932
Less: imputed interest	(68)
Total lease liabilities	1,864
Amounts due within 12 months	1,103
Non-current lease liability	761

11. Prepayments on long-term assets

The following is a summary of prepayments on long-term assets as of December 31, 2022 and 2023:

	As of December 31,	
	2022	2023
	(in thousands)	
Prepayments on buildings (Note a)	112,856	112,856
Prepayments on other non-current assets (Note b)	—	569
	<u>112,856</u>	<u>113,425</u>

Note a: On December 21, 2021, the Group entered into a sale and purchase agreement (the “S&P Agreement”) with an independent third party, pursuant to which, the Group agreed to purchase a premise located in Shanghai, the PRC, at a consideration of RMB112,855,500, and fulfill certain tax requirement that during the period starting from the date of the S&P Agreement to December 31, 2024, the total amount of taxes payments would be not less than approximately RMB50,000,000 in aggregate. In the event that the Group fails to meet the tax requirements of RMB50,000,000, the counterparty has the right to demand a delay in delivering the premise until the Group supplements the taxation requirements, or to terminate the S&P agreement by returning all prepayments to the Group without any penalty. Although phased requirements for the taxation of RMB50,000,000 are stated in the S&P agreement, the fulfillment of these phased requirements only affects the Group’s entitlement on certain government subsidies and does not involve the counterparty’s right to terminate the S&P agreement. As of December 31, 2023, the consideration has been fully paid. The prepayments are refundable subject to (i) the agreement is terminated by uncontrollable factors of which the liability of breach of agreement does not lay on either the seller or the Group, or (ii) the agreement is terminated by the Group on the ground that the seller cannot fulfill the responsibility of the agreement.

Note b: The amount represents the prepaid allocated purchase price for customer relationships and software, which were still in the transfer process and had not been finalized as of December 31, 2023. Please refer to Note 9 for further details regarding the asset acquisition process.

12. Accrued liabilities and other current liabilities

	As of December 31,	
	2022	2023
	(in thousands)	
Salary and welfare payable	3,616	8,915
Other tax payables	350	3,221
Accrued listing expenses (Note a)	4,963	—
Others	3,926	3,228
Total	<u>12,855</u>	<u>15,364</u>

Note a: The amount represents incremental costs directly attributable to the Company’s initial public offering payable by the Group.

13. Share capital

On June 28, 2021, Intchains Group Limited, was incorporated in the Cayman Islands as an exempted company with limited liability to become our offshore holding company with authorized share capital of US\$50,000 divided into 500,000,000 shares of a par value of US\$0.0001 each. On June 28, 2021, the Company issued 1,000,000 ordinary shares to existing shareholders at a price of US\$0.0001 per share for a total cash consideration of US\$100. All share capital is unpaid yet.

On December 14, 2021, the directors of the Company and shareholders approved that, 176,470 ordinary shares of the Company to be issued and allotted to Golden Stone Capital Limited at a consideration of RMB100,000,000.

On July 8, 2022, the Company effected 100 for 1 stock subdivision, such that the (i) authorized share capital of the Company was subdivided from US\$50,000 divided into 500,000,000 shares, US\$0.0001 par value each to US\$50,000 divided into 50,000,000,000 shares, US\$0.000001 par value each, and (ii) the issued and outstanding shares were 117,647,000 shares of par value of US\$0.000001 each.

In March 2023, the Company completed its initial public offering (“IPO”) on the Nasdaq Capital Market. In the IPO, 1,114,516 American depositary shares (“ADSs”), representing 2,229,032 Class A ordinary shares, were issued and sold to the public at a price of USD 8.00 per ADS, after underwriter partially exercised over-allotment option to purchase additional ADSs. Net proceeds of the Company’s IPO, including the proceeds from the sale of the over-allotment shares, totalled RMB38,211,000, after deducting underwriting discounts and commission, and other incremental costs directly attributable to IPO.

Upon the completion of IPO, the authorized share capital of the Company was re-classified and re-designated such that the authorized share capital of the Company became US\$50,000 divided into 50,000,000,000 shares of a par value of US\$0.000001 each, comprising of (a) 49,934,912,000 Class A ordinary shares of a par value of US\$0.000001 each (the “Class A Ordinary Shares”); and (b) 65,088,000 Class B ordinary shares of a par value of US\$0.000001 each (the “Class B Ordinary Shares”). On March 20, 2023, 52,559,000 and 65,088,000 ordinary shares held by the existing shareholders before IPO were respectively re-designated as Class A Ordinary Shares and Class B Ordinary Shares. Each Class A Ordinary Share shall be entitled to one (1) vote on all matters subject to the vote at general meetings of the Company, and each Class B Ordinary Share shall be entitled to ten (10) votes on all matters subject to the vote at general meetings of the Company. Each Class B Ordinary Share shall be converted at the option of the holder, at any time after issue and without the payment of any additional sum, into one fully paid Class A Ordinary Share calculated at the conversion rate. Upon any sale, transfer, assignment or disposition of Class B Ordinary Shares by a holder thereof to any person or entity which is not an Affiliate of such holder, such Class B Ordinary Shares validly transferred to the new holder shall be automatically and immediately converted into an equal number of Class A Ordinary Shares.

Upon the completion of IPO, the 2022 Share Incentive Plan (“The Plan”) became effective. Please refer to Note 14 for details regarding the Plan. As of December 31, 2023, no ordinary shares had been issued under the Plan.

In March 2023, pursuant to the Underwriter Agreement, the Company issued to Maxim Partners LLC (or its permitted assignees) warrants, or the Underwriter’s Warrants, to purchase 33,435 of the Company’s ADSs, representing 66,870 Class A ordinary shares, at an exercise price of USD10.00 per ADS, with the option to exercise on a cashless basis. The Underwriter’s Warrants are exercisable commencing six months after the Prospectus Effective Date, and will expire 18 months after the Prospectus Effective Date. The Company classified the Underwriter’s Warrants as equity at their fair value on the issuance date. As of December 31, 2023, all the Underwriter’s Warrants are outstanding.

In November 2023, 1,095,760 Class B ordinary shares were converted into Class A ordinary shares by the holder on a one-for-one basis.

As of December 31, 2023, the authorized and outstanding ordinary shares are 119,876,032. These outstanding shares consist of (1) 55,883,792 Class A ordinary shares and (2) 63,992,240 Class B ordinary shares, which were held by the Chairman and CEO, and CTO of the Group.

14. Share based compensation

The Group adopted the “2022 Share Incentive Plan” on July 12, 2022 (“The Plan”), by the way of special resolution passed on July 12, 2022, which became effective upon the completion of the proposed initial public offering of American Depositary Shares of the Company in March 2023 and shall continue for 10 years unless amended or terminated by the Board. The Company could use the following awards authorized for issuance or grant under the Plan: options, share appreciation rights, share awards, restricted share units (“RSUs”), dividend equivalents or other share-based awards. The maximum aggregate number of shares that may be issued under the Plan is initially 6,500,000 Shares and shall automatically increase on the first trading day in January each calendar year during the term of the Plan, beginning on the first trading day in January 2023, by an amount equal to 1% of the total number of Shares outstanding as measured as of the last trading day in the immediately preceding calendar year, or such fewer number of Shares as determined by the Board, but in no event shall any such annual increase exceed 1,350,000 Shares. The shares issued under the Plan may be authorized, but unissued, or reacquired shares (subject to applicable laws), including shares repurchased by the Company on the open market. As of December 31, 2023, the number of shares granted but unissued was 527,602 ordinary shares. Two ordinary shares are issuable upon the vesting or the exercise of one share-based award.

(a) RSUs

The following table summarize the Group’s RSU activities under the 2022 Plan:

	<u>Number of RSUs</u>	<u>Weighted average grant date fair value</u> US\$
Awarded and unvested as of December 31, 2022	—	—
Granted	135,706	8.50
Vested	—	—
Canceled/forfeited	(4,984)	8.50
Awarded and unvested as of December 31, 2023	<u>130,722</u>	<u>8.50</u>
Expected to vest as of December 31, 2023 (Note a)	<u>107,427</u>	<u>8.50</u>

Note a: RSUs expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding RSUs.

As of December 31, 2023, there were RMB 4,457,000 of unamortized compensation costs related to all outstanding RSUs, net of expected forfeitures. These amounts are expected to be recognized over a weighted average period of 3.4 years.

During the years ended December 31, 2021, 2022 and 2023, the Group recognized share-based compensation expense of nil, nil and RMB 2,122,000, respectively, in connection with the above RSUs.

(b) Share options

A summary of the changes in the share options relating to ordinary shares granted by the Group during the year ended December 31, 2023 is as follows:

	<u>Number of share options</u>	<u>Weighted average exercise price</u> US\$	<u>Weighted average remaining contractual life</u> (in years)
Outstanding as of December 31, 2022	—	—	—
Granted	135,079	8.0	10.0
Exercised	—	—	—
Canceled/forfeited	(2,000)	8.0	9.5
Outstanding as of December 31, 2023	<u>133,079</u>	<u>8.0</u>	<u>9.4</u>
Vested and exercisable as of December 31, 2023 (Note a)	—	—	—
Vested and expected to vest as of December 31, 2023 (Note b)	109,014	8.0	9.4

Note a: No outstanding share options will be exercisable after the expiry of a period of up to ten years from the date of grant.

Note b: Share options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding share options.

The aggregate intrinsic value is calculated as the difference between the exercise price of the awards and the fair value of the underlying ordinary shares at each reporting date, for those awards that had exercise price below the estimated fair value of the relevant ordinary shares. As of December 31, 2023, the aggregate intrinsic value of all outstanding options that was RMB4,119,000. As of the same date, the aggregate intrinsic value of options that were vested and exercisable and options that were vested and expected to vest was nil and RMB3,374,000, respectively.

During the years ended March 31, 2021, 2022 and 2023, the weighted average grant date fair value of share options granted was nil, nil and US\$5.3534, respectively, and there was no share option vested or exercised during the same years.

As of December 31, 2023, total unrecognized share-based compensation expense relating to unvested share options was RMB2,864,000, which is expected to be recognized over a weighted-average period of 3.4 years.

The Group calculated the estimated fair value of the options on the respective grant dates using the binomial tree valuation model with the following assumptions for each applicable period which took into account variables such as volatility, dividend yield, and risk-free interest rates:

	For the year ended December 31, 2023
Risk-free interest rate(i)	3.76%
Expected volatility(ii)	77%
Expected dividend yield(iii)	0%
Exercise multiple(iv)	2.2 to 2.8
Forfeiture rate (v)	2% to 10%
Fair value of underlying ordinary shares	US\$ 8.5
Fair value of share option	US\$5.2670 to US\$5.7275

- i) Risk-free interest rate is based on the yields of United States Treasury securities with maturities similar to the expected life of the share options in effect on the measurement date.
- ii) The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the contract life of the Group's options.
- iii) Expected dividend yield is assumed to be nil as the Group has no history or expectation of paying a dividend on its ordinary shares.
- iv) The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price of when employees would decide to voluntarily exercise their vested options. As the Group did not have sufficient information of past employee exercise history, it has considered the statistics by making reference to a widely-accepted academic research publication.
- v) Forfeiture rate was based on the historical data of the Group from recent years and widely-accepted academic research publications, given the Group's limited historical record of share options.

(c) Share-based compensation expense by function:

The Group recognized share-based compensation expenses for the years ended December 31, 2021, 2022 and 2023 as follows:

	For the year ended December 31,		
	2021	2022	2023
	(in thousands)		
Research and development expenses	—	—	1,972
Sales and marketing expenses	—	—	818
General and administrative expenses	—	—	684
Total	—	—	3,474

15. Products revenue

	For the year ended December 31,		
	2021	2022	2023
	(in thousands)		
ASIC chips products:	631,838	473,740	68,358
ASIC chips	560,105	436,980	47,736
Computing equipment (Note a)	—	—	8,496
Ancillary software and hardware	71,733	36,760	12,126
Others (Note b)	—	—	13,867
	<u>631,838</u>	<u>473,740</u>	<u>82,225</u>

Note a: The Group began offering computing equipment with embedded ASIC chips to customers in the fourth quarter of 2023.

Note b: The revenue was substantially derived from a one-off sale of intelligent router products, totaling RMB13,839,000 for the year ending December 2023. These intelligent router products were procured from external vendors and integrated with our software solutions for resale purposes. This was a one-off transaction for the Group, with no plans in place to pursue this business line in the future.

16. Other income, net

	For the year ended December 31,		
	2021	2022	2023
	(in thousands)		
Government grants (Note a)	661	29,799	13,201
Interest expense and guarantee fee	(197)	(73)	(62)
Change in fair value of short-term investments	—	—	174
Others	79	—	(122)
	<u>543</u>	<u>29,726</u>	<u>13,191</u>

Note a: The government grants are provided by local government to support the qualified projects of IC industry with no repayment obligations. The amount recognized represents conditions for meeting grants are fulfilled for the years ended December 31, 2021, 2022 and 2023.

17. Income Taxes

(a) 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.

(b) British Virgin Island

Pursuant to the rules and regulations of the British Virgin Island, the Group is not subject to any income tax in the British Virgin Island.

(c) Hong Kong Profits Tax

The Group's subsidiaries incorporated in Hong Kong are subject to a two-tiered income tax rate on its taxable income generated from operations in Hong Kong effective on April 1, 2018. The first HK\$2 million of profits earned by its subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e., 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. Under the Hong Kong tax laws, which are effective from January 1, 2023, entities in HK are exempted from the Hong Kong income tax on its foreign-derived income if the HK entities meet economic substance requirement or participation requirement. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(d) Singapore

Tax on corporate income is imposed at a flat rate of 17%. A partial tax exemption and a three-year start-up tax exemption for qualifying start-up companies are available. Under partial tax exemption, 75% of the first SGD 10,000 of chargeable income is tax exempt and 50% of the next SGD 190,000 of chargeable income is tax exempt. Under start-up tax exemption, 75% of the first SGD 100,000 of chargeable income is tax exempt and 50% of the next SGD 100,000 of chargeable income is tax exempt. The start-up exemption is not available to property development and investment holding companies.

(e) PRC Enterprise Income Tax (“EIT”)

Shanghai Intchains obtained its High and New Technology Enterprises (“HNTE”) certificate with a valid period of three years in 2019. Therefore, Shanghai Intchains is eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 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. In December 2022, Shanghai Intchains received approval from the tax authority on the renewal of its HNTE status which entitled it to the preferential income tax rate of 15% effective retroactively from 2022 to 2024. In addition, Shanghai Intchains is qualified as an integrated circuit design enterprise and enjoying a 5-year tax holiday (two years full exemption followed by three years half reduction) beginning from 2021 after utilizing all prior years’ tax losses. The Group’s other PRC subsidiaries are subject to the statutory income tax rate of 25%.

The carry forward period for net operating losses under the EIT Law is five years for general enterprises and ten years for HNTE and all tax losses have been utilized during the year of 2021. However, Shanghai Intchains is eligible to enjoy a preferential tax rate of 0% after utilizing all prior year’s tax losses from 2021 to 2022 and 12.5% from 2023 to 2025.

(f) 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 Foreign- invested Enterprise (“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. The Cayman Islands, where the Company is incorporated, does not have such tax treaty with China. 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 will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong 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 2023, the Company did not record any withholding tax on the retained earnings of its subsidiaries in the PRC as the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC.

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
PRC statutory income tax rates	25.00%	25.00%	25.00%
Effect of different tax rates available to different jurisdictions	—	—	(1.25%)
Effect of preferential tax rates and tax holiday	(22.79%)	(18.34%)	(12.20%)
Effect of expenses not deductible for tax purposes (i)	0.01%	0.01%	(1.56%)
Effect of additional deduction of research and development expense	(2.22%)	(2.64%)	13.01%
Effect of tax losses and temporary differences utilized	—	(0.81%)	1.64%
Total	<u>0.00%</u>	<u>3.22%</u>	<u>24.64%</u>

- (i) Expenses not deductible for tax purposes primarily consist of share-based compensation expense and entertainment expenses exceeding the pre-tax deduction limit.

Composition of income tax expense/(benefit)

The current and deferred portions of income tax expense/(benefit) included in the consolidated statements of operations and comprehensive income are as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
	(in thousands)		
Current tax	—	11,814	4,185
Deferred taxation	—	42	(12,941)
Income tax expenses/(benefit)	<u>—</u>	<u>11,856</u>	<u>(8,756)</u>

Deferred tax assets and liabilities

Deferred taxes were measured using the enacted tax rates for the periods in which they are expected to be reversed. The following table presents the tax impact of significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2022 and 2023:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2023</u>
	(in thousands)	
Deferred tax assets:		
Accrued expense and others	80	129
Inventory provision	207	3,996
Impairment on prepayment	—	35
Product warranty	33	6
Tax loss	—	9,883
Total deferred tax assets before valuation allowance	—	14,049
Valuation allowance	—	(503)
Total deferred tax assets	<u>320</u>	<u>13,546</u>
Deferred tax liabilities:		
Accelerated tax depreciation	(362)	(647)
Total deferred tax liabilities	<u>(362)</u>	<u>(647)</u>
Presentation in the consolidate balance sheet:		
Deferred tax assets	—	12,899
Deferred tax liabilities	(42)	—
Net deferred tax assets/(liabilities)	<u>(42)</u>	<u>12,899</u>

In accordance with ASC 740, for each tax-paying entity within a particular jurisdiction, all deferred tax assets and liabilities shall be offset and presented as a single amount within a particular tax jurisdiction rather than on a legal entity by entity basis. Therefore, certain non-current deferred tax assets and liabilities of the Group were offset and presented on a net basis on the consolidated balance sheets of the Group.

The Group evaluates each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measure the unrecognized benefits associated with the tax positions. As of December 31, 2022 and 2023, the Group did not have any significant unrecognized uncertain tax positions.

As of December 31, 2022 and 2023, the Group had taxable losses of nil and RMB62,534,000 derived from the entity in the PRC, which can be carried forward for ten years to offset future taxable profit for the subsidiary qualified as HNTE in 2023. The PRC taxable loss will expire in 2033 if not utilized. As of December 31, 2022 and 2023, the Group had taxable losses of nil and RMB2,957,000 derived from the entity in Singapore, which can be carried forward with no expiration date.

As of December 31, 2023, the valuation allowance of RMB503,000 was principally related to the tax loss from the entity in Singapore. The Group does not believe that sufficient positive evidence exists to conclude that the recoverability of deferred tax assets of the entity in Singapore is more likely than not to be realized. Consequently, the Group has provided full valuation allowances for the entity in Singapore on the related deferred tax assets. The following table sets forth the movement of the valuation allowances for deferred tax assets for the periods presented:

	For the year ended December 31,		
	2021	2022	2023
	(in thousands)		
Beginning balance	—	—	—
Additions during the year	—	—	503
Ending balance	—	—	503

18. Related party transactions

During the year ended December 31, 2021, the Group entered into certain short-term loan agreements with Shanghai Pudong Development Bank Co., LTD. New Branch of Shanghai Pilot Free Trade Zone. with aggregated principal amount of RMB5,000,000, which was guaranteed by a controlling shareholder, and his spouse, and an independent third party with the interest fixed rates 4% per annum. The amount was fully repaid on October 25, 2021.

As of December 31, 2020, the amounts due to Mr. Sheng and Mr. Feng Yang, the shareholders of the Group, were RMB4,790,000 and RMB13,000, respectively. These amounts are non-trade in nature, unsecured, interest-free and repayable on demand and all repaid in 2021.

During the years ended December 31, 2021, 2022 and 2023, except for disclosed above, the Group did not conduct any transaction with related parties. As of December 31, 2022 and 2023, the amount due to (or due from) related parties was nil.

19. Basic and diluted net earnings per share

Basic and diluted earnings per share have been calculated in accordance with ASC 260 on computation of earnings per share for each of the years ended December 31, 2021, 2022 and 2023, are calculated as follows:

	For the year ended December 31,		
	2021	2022	2023
	(in thousands, except share and per share data)		
Basic and diluted net earnings per share calculation			
Numerator:			
Net earnings(loss) attributable to ordinary shareholders, basic and diluted	450,144	355,201	(26,795)
Denominator:			
Weighted-average ordinary shares outstanding, basic and diluted ⁽¹⁾	100,870,300	117,647,000	119,387,937
Net earnings per share attributable to ordinary shareholders:			
Basic	4.46	3.02	(0.22)
Diluted	4.46	3.02	(0.22)

Note:

(1) Retroactively restated for the stock subdivision as described in Note 1.

For the year ended December 31, 2023, the effects of all outstanding RSUs, share options and warrants have been excluded from the computation of diluted loss per share due to its anti-dilutive effect.

20. Commitments and contingencies

As of December 31, 2022 and 2023, the Group is not a party to any legal or administrative proceedings which will have a material adverse effect on the Group's financial position, results of operations and cash flows. In addition to the information disclosed elsewhere in the notes to consolidated financial statements, the Group had no significant capital and other commitments, long-term obligations or guarantees as of December 31, 2022 and 2023.

21. Subsequent events

On February 28, 2024, the Group completed its previously reported acquisition of certain assets from Singapore-based GOLDSHELL PTE. LTD., or the Seller, in accordance with an asset acquisition agreement between a subsidiary of the Group and the Seller dated December 8, 2023. Pursuant to the terms and conditions of such asset acquisition agreement, the Group acquired the Goldshell brand and certain related assets for a cash consideration of US\$550,000. Details of the acquisition are also included in Note 9.

On January 22, 2024, Maxim Partners LLC exercised the Underwriter's Warrants granted in connection with our initial public offering on the Nasdaq Capital Market in full through a cashless exercise to acquire 7,921 of our ADSs. Information with respect to the Underwriter's Warrants is described in Note 13.

22. Restricted net assets

Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises and local enterprises, the Group's entities in the PRC must make appropriation from after-tax profit to non-distributable reserve funds as determined by the Board of Directors of the Company. PRC laws and regulations permit payments of dividends by the Company's subsidiaries in the PRC only out of their retained earnings, if any, as determined in accordance with the PRC accounting standards and regulations. In addition, the Company's subsidiaries incorporated in the PRC are required to annually appropriate 10% of their net income to the statutory reserve prior to payment of any dividends, unless such reserve has reached 50% of their respective registered capital.

As a result of these and other restrictions under PRC laws and regulations, the PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. Amounts restricted include paid-in capital, share premium and the statutory reserves of subsidiaries.

As of December 31, 2022 and 2023, the total of restricted net assets was RMB157,024,000, or 17% of the Group's total consolidated net assets, and RMB157,810,000, or 17% of the Group's total consolidated net assets, respectively.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Qiang Ding, certify that:

1. I have reviewed this annual report on Form 20-F of Intchains Group Limited (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 18, 2024

By: /s/ Qiang Ding
Name: Qiang Ding
Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Chaowei Yan, certify that:

1. I have reviewed this annual report on Form 20-F of Intchains Group Limited (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 18, 2024

By: /s/ Chaowei Yan
Name: Chaowei Yan
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Intchains Group Limited (the “Company”) on Form 20-F for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Qiang Ding, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 18, 2024

By: /s/ Qiang Ding
Name: Qiang Ding
Title: Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Intchains Group Limited (the “Company”) on Form 20-F for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chaowei Yan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 18, 2024

By: /s/ Chaowei Yan
Name: Chaowei Yan
Title: Chief Financial Officer

競天公誠律師事務所
JINGTIAN & GONGCHENG

45/F, K. Wah Centre, 1010 Huaihai Road (M), Shanghai, China
T: (86 21) 5404 9930 F: (86 21) 5404 9931

March 18, 2024

To:

Intchains Group Limited (the “Company”)

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Dear Sirs:

We hereby consent to the reference of our name in the Company’s Annual Report on Form 20-F for the year ended December 31, 2023 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) in the month of March 2024 of the summary of our opinion under the heading “Item 3. Key Information—Government Regulations and Permissions”, “Item 3.D Key Information—Risk Factors—Risks Relating To Our Business And Industry” and “Item 4.B. Information on the Company—Business Overview—Regulations”, and in the Annual Report. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

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Yours faithfully,

/s/ Jingtian & Gongcheng

Jingtian & Gongcheng

INTCHAINS GROUP LIMITED
STATEMENT OF POLICIES
GOVERNING MATERIAL NON-PUBLIC INFORMATION AND
THE PREVENTION OF INSIDER TRADING

I. PURPOSE

This Statement of Policies Governing Material Non-Public Information and the Prevention of Insider Trading (this “**Statement**”) applies to all directors, officers and employees of Intchains Group Limited and its subsidiaries and affiliated entities (collectively, the “**Company**”).

This Statement consists of three sections: Section II provides an overview; Section III sets forth the Company’s policies prohibiting insider trading; and Section IV explains insider trading.

II. SUMMARY

Preventing insider trading is necessary to comply with United States or non-United States securities laws and to preserve the reputation and integrity of the Company, as well as that of all persons affiliated with it. “**Insider trading**” occurs when any person purchases or sells any securities while in possession of inside information relating to the securities. As explained in Section III below, “**securities**” includes the shares of the Company and of our partners and other companies as well, and “**inside information**” is information which is considered to be both “**material**” and “**non-public**.”

The Company considers strict compliance with the policies set forth in this Statement (collectively, the “**Policy**”) to be a matter of utmost importance. Violation of the Policy could cause extreme reputational damage and possible legal liability to you and the Company. Knowing or willful violations of the letter or spirit of the Policy will be grounds for immediate dismissal from the Company. Violation of the Policy might expose the violator to severe criminal penalties, as well as civil liability to any person harmed by the violation. The monetary damages flowing from a violation could be multiple times the profit realized by the violator, not to mention the attorney’s fees of the persons harmed.

This Statement applies to all directors, officers and employees of the Company, whether they work for the Company on a full-time, part-time, or temporary basis **and extends to all of such persons’ activities within and outside their duties at the Company**. Every director, officer and employee of the Company must review this Statement, and when requested by the Company, must certify that he or she has done so, either electronically, or by executing and returning to the Chief Financial Officer of the Company (the “**CFO**”) the Certificate of Compliance attached hereto. Should you have any questions regarding this Statement, please contact the CFO, Mr. Chaowei Yan.

III. POLICIES PROHIBITING INSIDER TRADING

For purposes of this Statement, the terms “**purchase**” and “**sell**” of securities exclude the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards, if applicable, that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the policies set forth below. The Policy does not apply to the exercise of a tax withholding right pursuant to which you elect to have the Company withhold ordinary shares or American Depositary Shares (“**ADSs**”) subject to an option or other award to satisfy tax withholding requirements.

A. No Trading – No director, officer or employee of the Company may purchase or sell any ADSs, ordinary shares or other securities of the Company or any other securities to which inside information relates or enter into a binding security trading plan in compliance with Rule 10b5-1 under the U.S. Securities Exchange Act of 1934, as amended (a “Trading Plan”) while in possession of material non-public information relating to the Company or its ADSs, ordinary shares or Company or any other securities to which inside information relates (the “Material Information”).

In the event that the Material Information possessed by you relates to the ADSs or other securities of the Company or any other securities to which such Material Information relates, the above policy will require waiting for at least forty-eight (48) hours after public disclosure of the Material Information by the Company, which forty-eight (48) hours shall include in all events at least one full Trading Day on the stock exchange where the Company’s ADSs representing its ordinary shares are listed and traded (the “**Stock Exchange**”) following such public disclosure. The term “**Trading Day**” is defined as a day on which the Stock Exchange is open for trading. Except for public holidays in the United States, the Stock Exchange’s regular trading hours are from 9:30 a.m. to 4:00 p.m., New York City time, Monday through Friday.

In addition, no director, officer or employee of the Company may purchase or sell any securities of the Company or enter into a Trading Plan, without the prior clearance by the CFO, during any period designated as a “limited trading period” by the Company, regardless of whether such director, officer, employee or consultant possesses any Material Information.

Furthermore, all transactions in the securities of the Company (including without limitation, acquisitions and dispositions of the ADSs, the sale of ordinary shares issued upon exercise of options or vesting of other share-based awards and the execution of a Trading Plan, but excluding the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards that does not involve the sale of securities) by directors, officers and key employees designated by the Company from time to time must be pre-approved by the CFO or by another person as designated by the Chief Executive Officer of the Company.

Please see Section IV below for an explanation of the Material Information.

B. Trading Window – Assuming none of the “no trading” restrictions set forth in Section III-A above applies, no director, officer, or key employee of the Company as designated by the Company from time to time may purchase or sell any securities of the Company or enter into a Trading Plan other than during a Trading Window.

A “Trading Window” is the period in any fiscal quarter or half year (depending on the Company’s reporting practices) of the Company commencing at the close of business on the second Trading Day following the date of the Company’s public disclosure of its financial results for the prior quarter or half year, as applicable, and ending on the last day of the quarter or half year during which such public disclosure is made, as applicable (e.g. assuming the Company’s public disclosure of its unaudited financial results for the quarter ended March 31 is announced on May 15, the Trading Window for such quarter will start on May 17 and end on June 30).

If the Company’s public disclosure of its financial results for the prior period occurs on a Trading Day more than four hours before the Stock Exchange closes, then such date of disclosure shall be considered the first Trading Day following such public disclosure.

Please note that trading in any securities of the Company during the Trading Window is not a “safe harbor,” and all directors, officers and employees of the Company should strictly comply with the Policy.

When in doubt, do not trade and do not disclose the information to others! Check with the CFO first.

Notwithstanding the foregoing, sale of securities of the Company pursuant to an existing Trading Plan which was entered into in accordance with the Policy and in compliance with applicable law is not subject to the restrictions on trading in Sections II-A and II-B above.

C. No Tipping – No director, officer or employee of the Company may directly or indirectly disclose any non-public Material Information to anyone outside the Company (so-called “tipping”).

D. Confidentiality – No director, officer or employee of the Company may communicate any non-public Material Information to anyone outside the Company under any circumstances unless approved by the CFO in advance, or to anyone within the Company other than on a need-to-know basis.

E. No Comment – No director, officer or employee of the Company may discuss any non-public internal matters or developments of the Company with anyone outside the Company, except as required for the performance of regular corporate duties. Unless you are expressly authorized to the contrary, if you receive any inquiries about the Company or its securities by the financial press, research analysts or others, or any requests for comments or interviews, you are required to decline comment and direct the inquiry or request to the CFO, who is responsible for coordinating and overseeing the release of Company information to the investing public, analysts and others in compliance with applicable laws and regulations.

F. Corrective Action – If you become aware that any potential Material Information has been or may have been inadvertently disclosed, you must notify the CFO immediately so that the Company can determine whether or not corrective action, such as general disclosure to the public, is warranted.

IV. EXPLANATION OF INSIDER TRADING

As noted above, “**insider trading**” refers to the purchase or sale of a security while in possession of “**material**” “**non-public**” information relating to the security. “**Securities**” include not only stocks, bonds, notes and debentures, but also options, warrants and similar instruments. “**Purchase**” and “**sale**” are defined broadly under the U.S. federal securities laws. “**Purchase**” includes not only the actual purchase of a security, but any contract to purchase or otherwise acquire a security. “**Sale**” includes not only the actual sale of a security, but any contract to sell or otherwise dispose of a security. These definitions extend to a broad range of transactions, including conventional cash-for-stock transactions, the grant and exercise of stock options and acquisitions and exercises of warrants or puts, calls or other options related to a security. It is generally understood that “**insider trading**” includes the following:

- trading by insiders while in possession of material non-public information;
- trading by persons other than insiders while in possession of material non-public information where the information either was given in breach of an insider’s fiduciary duty to keep it confidential or was acquired inappropriately; and
- communicating or tipping material non-public information to others, including recommending the purchase or sale of a security while in possession of material non-public information.

As noted above, for purposes of this Statement, the terms “**purchase**” and “**sell**” securities do not include the acceptance of options or other share-based awards granted by the Company or the exercise of options or vesting of other share-based awards that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the Policy.

What Facts are Material?

The materiality of a fact depends upon the circumstances. A fact is considered “**material**” if there is a substantial likelihood that a reasonable investor would consider it important in making a decision to buy, sell or hold a security or where the fact is likely to have a significant effect on the market price of the security. Material information can be positive or negative and can relate to virtually any aspect of a company’s business or to any type of security, debt or equity.

Examples of material information include (but are not limited to) information concerning:

- dividends;
- corporate earnings or earnings forecasts;
- changes in financial condition or asset value;
- status of and new developments related to product or product candidate development or regulatory approvals;

- negotiations for the mergers or acquisitions or dispositions of significant subsidiaries or assets;
- notice of issuance or denial of patents, the acquisition of other material intellectual property rights or notice of a material adverse change in intellectual property or patents owned by Company;
- regulatory developments;
- significant new contracts or the loss of a significant contract;
- significant new products or services;
- significant marketing plans or changes in such plans;
- capital investment plans or changes in such plans;
- material litigation, administrative action or governmental investigations or inquiries about the Company or any of its officers or directors;
- significant borrowings or financings;
- defaults on borrowings;
- new equity or debt offerings;
- significant personnel changes;
- changes in accounting methods and write-offs; and
- any substantial change in industry circumstances or competitive conditions which could significantly affect the Company's earnings or prospects for expansion.

A good general rule of thumb: **when in doubt, do not trade**, and **do not disclose such information to others**.

What is Non-public?

Information is "**non-public**" if it is not available to the general public. In order for information to be considered public, it must be widely disseminated in a manner making it generally available to investors through such media as Dow Jones, Reuters Economic Services, The Wall Street Journal, Bloomberg, Associated Press, PR Newswire or United Press International. Circulation of rumors, even if accurate and reported in the media, does not constitute effective public dissemination.

In addition, even after a public announcement, a reasonable period of time must lapse in order for the market to react to the information. Generally, one should allow approximately forty-eight (48) hours following publication as a reasonable waiting period before such information is deemed to be public.

Who is an Insider?

“**Insiders**” include directors, officers and employees of a company and anyone else who has material non-public information about a company. Insiders have independent fiduciary duties to their company and its shareholders not to trade on material non-public information relating to a company’s securities. All directors, officers and employees of the Company are considered insiders with respect to material non-public information about business, activities and securities of the Company. The directors, officers and employees of the Company may not trade the Company’s securities or any other securities to which such material non-public information relates while in possession of material non-public information relating to the Company or such other company as the material non-public information relates or tip (or communicate except on a need-to-know basis) such information to others.

It should be noted that trading by affiliates, including family members, of a director’s, officer’s or employee can be the responsibility of such director, officer or employee under certain circumstances and could give rise to legal and Company-imposed sanctions.

Trading by Persons Other than Insiders

Insiders may be liable for communicating or tipping material non-public information to a third party (a “**tippee**”), and insider trading violations are not limited to trading or tipping by insiders. Persons other than insiders also can be liable for insider trading, including tippees who trade on material non-public information tipped to them or individuals who trade on material non-public information which has been unlawfully used.

Tippees inherit an insider’s duties and are liable for trading on material non-public information tipped to them by an insider. Similarly, just as insiders are liable for the insider trading of their tippees, so are tippees who pass the material non-public information along to others who trade on such information. In other words, a tippee’s liability for insider trading is no different from that of an insider. Tippees can obtain material non-public information by receiving overt tips from others or through, among other things, conversations at social, business, or other gatherings.

Penalties for Engaging in Insider Trading

Penalties for trading on or tipping material non-public information can extend significantly beyond any profits made or losses avoided, both for individuals engaging in the unlawful conduct and their employers. The United States Securities and Exchange Commission and the United States Department of Justice have made the civil and criminal prosecution of insider trading violations a top priority. Enforcement remedies available to the government or private plaintiffs under the U.S. federal securities laws include:

- administrative sanctions;
- sanctions by self-regulatory organizations in the securities industry;
- civil injunctions;

- damage awards to private plaintiffs;
- disgorgement of profits gained by the violator;
- civil fines for the violator of up to three times the amount of profit gained or loss avoided by the violator;
- civil fines for the employer or other controlling person of a violator (i.e., where the violator is an employee or other controlled person) of up to the greater of US\$1,000,000 or three times the amount of profit gained or loss avoided by the violator;
- criminal fines for individual violators of up to US\$5,000,000 (US\$25,000,000 for an entity); and
- jail sentences of up to 20 years.

In addition, insider trading could result in serious sanctions by the Company, including immediate dismissal. Insider trading violations are not limited to violations of the U.S. federal securities laws. Other U.S. federal and state civil or criminal laws, such as the laws prohibiting mail and wire fraud and the Racketeer Influenced and Corrupt Organizations Act (RICO), and equivalent non-U.S. laws also may be violated upon the occurrence of insider trading.

Inside Information Regarding Other Companies

This Policy and the guidelines described herein also apply to material and non-public information relating to other companies, including the Company's customers, vendors, suppliers and other business partners ("**Business Partners**"), particularly when that information is obtained in the course of employment with, or other services performed by, or on behalf of, the Company. Civil and criminal penalties, and discipline, including termination of employment for cause, may result from trading on inside information regarding the Company's Business Partners. Each individual should treat material nonpublic information about the Company's Business Partners with the same care required with respect to information related directly to the Company.

* * *

CERTIFICATION OF COMPLIANCE

TO: Chief Financial Officer
RE: STATEMENT OF POLICIES OF INTCHAINS GROUP LIMITED GOVERNING MATERIAL NON-PUBLIC INFORMATION AND THE PREVENTION OF INSIDER TRADING

I have received, reviewed, and understand the policies set forth in the above-referenced Statement of Policies (such policies, as amended from time to time, the “**Policy**”) and hereby undertake, as a condition to my present and continued employment at or association with Intchains Group Limited or any of its subsidiaries or affiliated entities, to comply fully with the Policy.

I hereby certify that I have adhered to the Policy during the time period that I have been employed by or associated with Intchains Group Limited or any of its subsidiaries or affiliated entities.

I hereby undertake to adhere to the Policy in the future.

Signature: _____
Name: _____
ID Card Number: _____
Title: _____
Date: _____

**COMPENSATION RECOUPMENT POLICY OF
INTCHAINS GROUP LIMITED
December 1, 2023**

Section 1. Purpose.

Intchains Group Limited (the “*Company*”) has adopted this Compensation Recoupment Policy (this “*Policy*”) to implement a mandatory compensation recovery policy in the event of a Restatement in compliance with the applicable Nasdaq Listing Rules.

Any capitalized terms used, but not immediately defined, in this Policy have the meanings set forth in Section 14.

Section 2. Administration.

This Policy shall be administered in the sole discretion of the Committee. The Committee shall have the discretion to interpret the Policy and make all determinations with respect to this Policy, consistent with applicable law and this Policy. Without limiting the foregoing this Policy shall be interpreted in a manner that is consistent with the requirements of the Applicable Rules, and compliance with this Policy shall not be waived by the Committee, the Board or the Company in any respect. Any interpretations and determinations made by the Committee shall be final and binding on all affected individuals.

Section 3. Effective Date.

This Policy shall be effective as of the date of adoption by the Board, with retroactive applicability to October 2, 2023 (the “*Effective Date*”). This Policy applies to Incentive-Based Compensation that is Received by any Executive Officer on or after the Effective Date as described in Section 7 below.

Section 4. Amendment.

The Committee may amend this Policy from time to time in its discretion, subject to any limitations under applicable law or listing standards, including the Applicable Rules. Without limiting the foregoing, the Committee may amend this Policy as it deems necessary to reflect any amendment of the Applicable Rules or regulations or guidance issued under the Applicable Rules.

Section 5. No Substitution of Rights; Non-Exhaustive Rights.

Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights that may be available to the Company pursuant to (a) the Company’s 2022 share incentive plan, and as it may be amended, modified, restated and/or supplemented from time to time, or any other incentive plan of the Company or any of its subsidiaries (if any), (b) the terms of any policy or provision in any employment agreement, compensation agreement or arrangement, or other agreement or document (if any), or (c) any other legal remedies available to the Company under applicable law.

In addition to recovery of compensation as provided for in this Policy, the Company may take any and all other actions as it deems necessary, appropriate and in the Company’s best interest in connection with the Committee determining that this Policy should apply, including without limitation termination of the employment of, or initiating legal action against, an Executive Officer, and nothing in this Policy limits the Company’s rights to take any such appropriate actions.

Section 6. Recovery on a Restatement.

In the event that the Company is required to prepare a Restatement, the Company shall reasonably promptly recover from an Executive Officer the amount of any erroneously awarded Incentive-Based Compensation that is Received by such Executive Officer during the Recovery Period. The amount of erroneously Received Incentive-Based Compensation will be the excess of the Incentive-Based Compensation Received by the Executive Officer (whether in cash, shares or otherwise) based on the erroneous data in the original financial statements over the Incentive-Based Compensation (whether in cash, in shares or otherwise) that would have been Received by the Executive Officer had such Incentive-Based Compensation been based on the restated results, without respect to any tax liabilities incurred or paid by the Executive Officer.

Recovery of any erroneously awarded compensation under this Policy is not dependent on fraud or misconduct by any Executive Officer in connection with a Restatement.

Without limiting the foregoing, for Incentive-Based Compensation based on the Company's stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in the Restatement, (a) the amount shall be based on the Company's reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received and (b) the Company shall maintain documentation of the determination of that reasonable estimate and provide such estimate to Nasdaq as required by the Applicable Rules.

In addition to the foregoing, in the event that an Executive Officer fails to repay or reimburse erroneously awarded compensation that is subject to recovery, the Committee may require an Executive Officer to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering erroneously awarded compensation under this Policy.

Section 7. Covered Executive Officers and Covered Incentive-Based Compensation.

This Policy covers all persons who are Executive Officers at any time during the Recovery Period for which Incentive-Based Compensation is Received. Incentive-Based Compensation shall not be recovered under this Policy to the extent Received by any person before the date the person served as an Executive Officer. Subsequent changes in an Executive Officer's employment status, including retirement or termination of employment, do not affect the Company's right to recover Incentive-Based Compensation pursuant to this Policy.

This Policy shall apply to Incentive-Based Compensation that is Received by any Executive Officer on or after the Effective Date. For the avoidance of doubt, this will include Incentive-Based Compensation that may have been approved, awarded, or granted to an Executive Officer on or before the Effective Date if such Incentive-Based Compensation is Received after the Effective Date.

Each Executive Officer shall execute an Acknowledgment Agreement relating to this Policy in the form of Annex A hereto promptly after the adoption of this Policy or such person's first becoming an Executive Officer.

Section 8. Methods of Recovery; Limited Exceptions.

The Committee shall determine, in its sole discretion, the method of recovering any Incentive-Based Compensation subject to this Policy, including those methods set forth in Section 10.

No recovery shall be required if any of the following conditions are met and the Committee determines that, on such basis, recovery would be impracticable:

- (a) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered; *provided* that prior to making a determination that it would be impracticable to recover any Incentive-Based Compensation based on the expense of enforcement, the Company shall (i) have made a reasonable attempt to recover the Incentive-Based Compensation, (ii) have documented such reasonable attempts to recover, and (iii) provide the documentation to Nasdaq;
- (b) recovery would violate home country law where that law was adopted prior to November 28, 2022; *provided* that, prior to making a determination that it would be impracticable to recover any Incentive-Based Compensation based on a violation of home country law, the Company shall (i) have obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such violation, and (ii) provide a copy of such opinion to Nasdaq; or
- (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended (the “*Code*”), and U.S. Treasury regulations promulgated thereunder.

Section 9. Reporting; Disclosure; Monitoring.

The Company shall make all required disclosures and filings with the Regulators with respect to this Policy in accordance with the requirements of the Applicable Rules, and any other requirements applicable to the Company, including the disclosures required in connection with SEC filings.

Section 10. Methods of Recovery.

Subject to Section 8, in the event that the Committee determines that this Policy should apply, to the extent permitted by applicable law, the Company shall, as determined by the Committee in its sole discretion, take any such actions as it deems necessary or appropriate to recover Incentive-Based Compensation. The actions may include, without limitation (and as applicable):

- (a) forfeit, reduce or cancel any Incentive-Based Compensation (whether vested or unvested) that has not been distributed or otherwise settled;
- (b) seek recovery of any Incentive-Based Compensation that was previously paid to the Executive Officer;
- (c) seek recovery of any amounts realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based Incentive-Based Compensation;
- (d) recoup any amount in respect of Incentive-Based Compensation that was contributed or deferred to a plan that takes into account Incentive-Based Compensation (excluding certain tax-qualified plans, but including deferred compensation plans, and supplemental executive retirement plans, and insurance plans to the extent otherwise permitted by applicable law, including Section 409A of the Code) and any earnings accrued on such Incentive-Based Compensation;
- (e) offset, withhold, eliminate or cause to be forfeited any amount that could be paid or awarded to the Executive Officer after the date of determination; and
- (f) take any other remedial and recovery action permitted by law, as determined by the Committee.

In addition, the Committee may authorize legal action for breach of fiduciary duty or other violation of law and take such other actions to enforce the obligations of the Executive Officer to the Company as the Committee deems appropriate.

Section 11. Notice.

Before the Company takes action to seek recovery of compensation pursuant to this Policy against an Executive Officer, the Company shall take commercially reasonable steps to provide such individual with advance written notice of such compensation recovery; *provided* that this notice requirement shall not in any way delay the reasonably prompt recovery of any erroneously awarded Incentive-Based Compensation.

Section 12. No Indemnification.

The Company shall not indemnify any current or former Executive Officer against the loss of erroneously awarded compensation, and shall not pay or reimburse any such person for premiums incurred or paid for any insurance policy to fund such person's potential recovery obligations.

Section 13. Governing Law.

This Policy and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Applicable Rules, shall be governed by and construed in accordance with the laws of the Cayman Islands without regard to choice of law principles. If any provision of this Policy shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of this Policy, but this Policy shall be construed and enforced as if the illegal or invalid provision had never been included in this Policy.

Section 14. Defined Terms.

The following capitalized terms used in this Policy have the following meanings:

- (a) “**Applicable Rules**” means Section 10D of the Exchange Act and Rule 10D-1 promulgated thereunder, Listing Rule 5608 of the Listing Rules of The Nasdaq Stock Market LLC (“**Nasdaq**”) and any other national stock exchange rules that the Company is or may become subject to.
- (b) “**Board**” means the Board of Directors of the Company.
- (c) “**Committee**” means the Compensation Committee of the Company, or, in the absence of such committee, a majority of independent directors serving on the Board.
- (d) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.
- (e) “**Regulators**” means, as applicable, the Securities and Exchange Commission (the “**SEC**”) and Nasdaq.
- (f) “**Executive Officer**” means each officer of the Company who is the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice president of the Company in charge of a principal business unit, division or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar significant policy-making functions for the Company, as determined under 17 CFR §229.401(b). Any executive officer of any of the Company’s parents or subsidiaries is an “Executive Officer” for purposes of this Policy if such executive officer performs significant policy-making functions as described in the preceding sentence for the Company.
- (g) “**Financial Reporting Measures**” means (i) measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures, including but not limited to, the following examples of accounting-based measures and measures derived from: (a) revenues; (b) net income; (c) operating income; (d) profitability of one or more reportable segments; (e) financial ratios (e.g., accounts receivable turnover and inventory turnover rates); (f) net assets or net asset value per share (e.g., for registered investment companies and business development companies that are subject to the rule); (g) earnings before interest, taxes, depreciation and amortization; (h) funds from operations and adjusted funds from operations; (i) liquidity measures (e.g., working capital, operating cash flow); (j) return measures (e.g., return on invested capital, return on assets); (k) earnings measures (e.g., earnings per share); (l) sales per square foot or same store sales, where sales is subject to an accounting restatement; (m) revenue per user, or average revenue per user, where revenue is subject to an accounting restatement; (n) cost per employee, where cost is subject to an accounting restatement; (o) any of such financial reporting measures relative to a peer group, where the Company’s financial reporting measure is subject to an accounting restatement; and (p) tax basis income; (ii) the Company’s stock price; and (iii) total shareholder return in respect of the Company. A “Financial Reporting Measure” need not be presented within the financial statements or included in a filing with the SEC.

- (h) **“Incentive-Based Compensation”** means any compensation that is granted, earned, or vested, based wholly or in part upon the attainment of a Financial Reporting Measure, including but not limited to, (a) non-equity incentive plan awards that are earned based wholly or in part on satisfying a Financial Reporting Measure performance goal; (b) bonuses paid from a “bonus pool,” the size of which is determined based wholly or in part on satisfying a Financial Reporting Measure performance goal; (c) other cash awards based on satisfaction of a Financial Reporting Measure performance goal; (d) restricted stock, restricted stock units, performance share units, stock options, and stock appreciation rights that are granted or become vested wholly or in part on satisfying a Financial Reporting Measure performance goal; and (e) proceeds received upon the sale of shares acquired through an incentive plan that were granted or vested based wholly or in part on satisfying a Financial Reporting Measure performance goal. Incentive-Based Compensation does not include, among other forms of compensation, equity awards that vest exclusively upon completion of a specified employment period, without any performance condition, and bonus awards that are discretionary or based on subjective goals or goals unrelated to Financial Reporting Measures.
- (i) **“Received”** – Incentive-Based Compensation is deemed “Received” for the purposes of this Policy in the Company’s fiscal period during which the Financial Reporting Measure applicable to the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.
- (j) **“Recovery Period”** means the three completed fiscal years immediately preceding the date on which the Company is required to prepare a Restatement, which date is the earlier of (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement or (ii) a date that a court, regulator or other legally authorized body directs the Company to prepare a Restatement. In addition to the above mentioned three completed fiscal years, the “Recovery Period” shall also include any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years, provided that, a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months would be deemed a completed fiscal year.
- (k) **“Restatement”** means that the Company is required to prepare an accounting restatement due to a material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements (i) that is material to the previously issued financial statements, or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

Annex A

**ACKNOWLEDGMENT AGREEMENT IN RELATION TO
COMPENSATION RECOUPMENT POLICY OF INTCHAINS GROUP LIMITED**

I, the undersigned, hereby irrevocably acknowledge, accept, and agree to be bound by all of the terms and conditions of the Compensation Recoupment Policy, as it may be amended, restated, supplemented, or otherwise modified from time to time (the “*Policy*”), of **Intchains Group Limited** (the “*Company*”), both during and after my employment with the Company, including, without limitation, agreeing to (i) promptly repay, return, or forfeit any erroneously awarded Incentive-Based Compensation (as defined in the Policy) subject to recovery under the Policy, and (ii) the Company’s right to reduce, cancel, offset, withhold, or eliminate, as applicable, or otherwise take any other remedial or recovery action permitted by applicable law or contract, with respect to any other amounts granted, awarded, earned, or paid to me by the Company to effect any recovery under the Policy.

I also irrevocably acknowledge, accept, and agree that any Company right of recovery under the Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company pursuant to the terms and conditions of any equity incentive plan, cash incentive plan, employment agreement, compensation agreement, award agreement, separation agreement, or similar agreement or arrangement or other legal or contractual remedies available to the Company.

I further irrevocably acknowledge, accept, and agree that the Board (as defined in the Policy) and the Committee (as defined in the Policy) have the authority to administer and amend the Policy from time to time, and that any and all interpretations, decisions, and determinations of the Board and/or the Committee under or relating to the Policy shall be final, conclusive, and binding on all affected parties.

Signature

Print Name

Date

Annex A