

# **Ningbo Shanshan Co., Ltd.**

## **Internal Control Evaluation Report for 2022**

### **Dear Shareholders of Ningbo Shanshan Co., Ltd:**

We have evaluated the effectiveness of the Company's internal controls as of 31 December 2022, the base date for the internal control evaluation report, in accordance with the provisions of the Basic Norms for Internal Control of Enterprises and its supporting guidelines and other internal control supervision requirements (the "Enterprise Internal Control Standard System"), as well as the internal control system and evaluation methods of the Company ("the Company"), on the basis of daily and special supervision of internal control.

### **I.Disclaimer**

It is the responsibility of the Board of Directors to establish, improve and effectively implement the internal control, evaluate its effectiveness, and truthfully disclose the internal control evaluation report according to the provisions of the enterprise internal control standard system. The Board of Supervisors shall supervise the establishment and implementation of internal control by the Board of Directors. The management is responsible for organizing and leading the daily operation of internal control. The Board of Directors and Board of Supervisors, as well as Directors, Supervisors and senior officers of the Company guarantee that the report is true, accurate and complete in content without any false record, misleading statement or major omission, and undertake the individual and joint legal liabilities therefore.

The internal control of the Company is designed to reasonably ensure the legal and compliant operation and management, the asset safety, and the truth and completeness of the financial reports and relevant information of the Company, improve the efficiency and effect of operation, and promote the Company to achieve development strategy. Due to the inherent limitations of internal control, it can only provide reasonable assurance for the realization of the above objectives. In addition, it is risky to speculate the effectiveness of internal control in the future according to the evaluation results of internal control, because changes in circumstances

may result in internal controls becoming inappropriate or a reduced degree of adherence to control policies and procedures.

## **II. Conclusion of evaluation on internal control**

### **1. Whether the Company had any material defects in the internal control of financial reporting as at the base date of the internal control evaluation report**

Yes"  No"

### **2. Conclusion of evaluation on internal control of financial reporting**

Effective  Ineffective "

According to the identification criteria of material defects of internal control in the financial reporting of the Company, as at the basis date of internal control evaluation report, material defects of internal control in the financial reporting did not exist. The Board is of the view that the Company has maintained efficient internal control in the financial report in all material respects in accordance with requirements of corporate internal control standard system and relevant regulations.

### **3. Whether the Company had any material defects in the internal control of non-financial reporting**

Yes"  No"

According to the identification of material defects of internal control in the non-financial reporting, as at the basis date of internal control evaluation, the Company did not have any material defects of internal control in the non-financial reporting.

### **4. Factors affecting the conclusion of internal control effectiveness evaluation between the base date of internal control evaluation report and the publishing date of internal control evaluation report**

Applicable  Not Applicable"

No factors affecting the conclusion of internal control effectiveness evaluation occurred

between the base date of internal control evaluation report and the publishing date of internal control evaluation report.

5. **Whether the internal control audit opinion is consistent with the Company's evaluation conclusions on the effectiveness of internal control over financial reporting**

Yes No

6. **Whether the disclosure of material defects of internal control over non-financial reporting in the internal control audit report is consistent with the disclosure in the Company's internal control evaluation report**

Yes No

### **III. Internal control evaluation performance**

#### **(I) Scope of evaluation on internal control**

The Company determined the main entities, businesses and matters to be included in the scope of evaluation as well as high-risk areas in accordance with the risk-oriented principle.

1. **Entities incorporated in the scope of evaluation include:** ① Ningbo Shanshan Co., Ltd; ② key players of polarizer business, such as Shanjin Optoelectronics (Suzhou) Co., Ltd, ShanJin Optoelectronics (Nanjing) Co., Ltd, ShanJin Optoelectronics (Guangzhou) Co., Ltd, ShanJin Optoelectronics Technology (Zhangjiagang) Co., Ltd, ShanJin Optoelectronics (Beijing) Co., Ltd, ShanJin Optoelectronics (Mianyang) Co., Ltd; ③ key players of lithium battery material business, such as Shanghai Shanshan Technology Co., Ltd, Shanghai Shanshan New Material Co., Ltd, Shanghai Shanshan Lithium Battery Materials Technology Co., Ltd, Ningbo Shanshan New Material Technology Co., Ltd, Chenzhou Shanshan New Material Co., Ltd, Huzhou Shanshan New Energy Technology Co., Ltd, Fujian Shanshan Technology Co., Ltd, Inner Mongolia Shanshan New Material Co., Ltd, Inner Mongolia Shanshan New Material Co., Ltd, Sichuan Shanshan New Material Co., Ltd, Yunnan Shanshan New Material Co., Ltd, Dongguan Shanshan Battery Material Co., Ltd, Shanshan New Material (Quzhou) Co., Ltd; ④ key players of non-core business, such as Ningbo Ulica Solar Energy Co., Ltd, Ningbo Shanshan Venture Capital Investment Co., Ltd, Ningbo Shanshan Automobile Co., Ltd, and Inner Mongolia Qingshan Automobile Co., Ltd.

2. **Proportion of entities incorporated in the scope of evaluation:**

Indicators	Percentage (%)
The ratio of the total assets of entities incorporated in the scope of evaluation to the total assets of the consolidated financial statements of the Company	91.99
The ratio of the total operating revenue of entities incorporated in the scope of evaluation to the total operating revenue of the consolidated financial statements of the Company	99.79

3. **Businesses and matters incorporated into the scope of evaluation include:**

(I) Comprehensive management: including corporate governance, organizational structure, post setting, authorization management, seal management, contract management, system

construction and other matters;

(II) Internal control management: including internal control management, audit and audit opinion tracking, conflict of interest investigation, risk assessment management and other matters;

(III) Financial management: including capital management, budget management, current accounts management, accounting, tax management, cost accounting, financial reports and analysis, related transactions and other matters;

(IV) Procurement management: including raw material procurement, equipment procurement, equipment and materials procurement, supplier management, order management, acceptance management, service outsourcing, outsourced processing and other matters;

(V) Credit management: including customer credit investigation management, customer credit line management, customer credit assessment management and other matters;

(VI) Investment and financing management: including equity investment management, capital market financing management, financial institutions financing management, mortgage guarantee management, raised funds management and other matters;

(VII) Sales management: including customer management, market information management, product pricing management, sales orders and contracts management, delivery management and other matters;

(VIII) Project management: including project design management, project settlement management, project bidding management, project supervision management, project payment management, project site management and other matters;

(IX) HR management: including staff recruitment and allocation, staff training, compensation and welfare management, labor relations management, daily management, performance appraisal, dimission management, overseas travel management, etc.

(X) Information security management: including information system development and change management, information system maintenance management, information system backup management, information system security recovery management and other matters;

(XI) Public affairs management: including public relations management, emergency management, information release management, advertising management and other matters;

(XII) Safety management: including production safety, security management, fire management, environmental protection, energy conservation and emission reduction and other matters;

(XIII) Other matters related to the Company's development and daily operation.

#### **4. High risk areas of focus include:**

Financial management: For the purpose of standardizing financial management and ensuring the authenticity and accuracy of financial reports, the Company has developed a series of financial systems, including basic financial accounting system, financial information management system, capital and bank account management system, guarantee management system, financial reporting system, budget management system, online banking management system, cost management system, receivables/payables management system, and inventory management system, so as to ensure that the accounting information is true, legal and complete, the accounts are set reasonably, and able to provide the information needed for operation and management activities and the financial information in line with the national requirements in a timely and accurate manner, improve the level of capital management, reduce the risk of financial information management, and standardize the financial management.

Investment management: For the purpose of reducing the risk of investment and improving the return on investment, the Company has strictly standardized the requirements of investment management and improved the investment management system. To strengthen the management of major investment, the Company conducts special management of major investment projects, implements control measures before, during and after investment projects, so as to ensure the compliance and rationality of investment decisions and implementation. We have further strengthened budget management for major projects and investment in fixed assets, and ensured the proper implementation of budget control.

Accounts receivable management: In order to strengthen the management of receivables, the Company has constantly enhanced the management of customer credit and determined the accounts receivable management measures for risky customers. Through the accounts receivable risk early warning system and risky customer analysis, we take guarantee, mortgage and other corresponding control measures for risky customers in a timely manner, and carry out legal

proceedings if necessary, so as to effectively prevent risks in receivables.

**Project management:** To strengthen the management of investment projects, the Company has standardized the bidding and pre-settlement management of engineering construction projects, enhanced the pre-construction and post-construction control of all engineering projects, and strengthened the review of various project-related documents and contracts, so as to ensure that the control range, valuation method, bid evaluation method, contract form, material control and other aspects of project implementation are complete and under reasonable implementation. We have strengthened on-site process control of engineering projects and carry out regular inspection of major investment projects, so as to avoid implementation risks.

**Procurement management:** To strengthen the internal control of procurement and payment, the Company has established the supplier evaluation and access system, regularly carried out qualified supplier evaluation, and improved equipment procurement bidding management system and process, so as to strictly standardize the procurement business processes such as procurement plan, procurement inquiry, procurement implementation, procurement contract approval, procurement acceptance, storage, invoice entry and payment, and provide guarantee for its sustainable and stable production.

**Inventory management:** We made our best efforts to control and reduce the amount of inventory by setting reasonable and effective safety inventory standards according to our own characteristics and business needs, and carrying out immediate purchase, reasonable arrangement of production, smooth delivery and other necessary means. We held regular inventory management and analysis meetings, formulated and implemented measures to clean up and deal with sluggish materials, so as to improve the utilization rate of company funds and improve economic benefits.

**Asset management:** To optimize asset allocation according to the Company's development strategy, we have established an asset management working group to strengthen the asset management, liquidation and cancellation of idle assets and subsidiaries with no actual operation or income.

**5. The above entities, businesses and matters included in the scope of evaluation as well as high-risk areas are required to cover the main aspects of the Company's operation and management. Please indicate whether there are any major omissions.**

Yes"  No"

**6. Whether there is any statutory exemption**

Yes"  No"

**7. Other notes**

None

**(II) Internal control evaluation work basis and internal control defect identification standard**

The Company shall organize and carry out the internal control evaluation according to the provisions and requirements of the enterprise internal control standard system and its supporting guidelines, as well as the Company's system process, internal control manual, authorization system, internal control evaluation manual, quality management system and requirements of relevant industry regulations.

**1. Whether the specific identification standards of internal control defects have been adjusted from those used in previous years**

Yes"  No"

The Board of Directors has determined the specific identification standards of internal control defects applicable to the Company according to the identification requirements of the enterprise internal control standard system for major defects, important defects and general defects, as well as the size of the Company, industry characteristics, risk preference and risk tolerance and other factors, and by distinguishing the internal controls of financial reporting and non-financial reporting, which are consistent with those used in previous years.

**2. Standards for identifying defects in internal control of financial reporting**

The quantitative standards for evaluating defects in internal control of financial reporting



determined by the Company are as follows:

Indicator Name	Quantitative standards for major defects	Quantitative standards for important defects	Quantitative standards for general defects
Net assets	Potential misstatement $\geq 2\%$ of consolidated net assets	1% of consolidated net assets $\leq$ Potential misstatement $< 2\%$ of consolidated net assets	Potential misstatement $< 1\%$ of consolidated net assets

Notes:

None

The qualitative standards for evaluating defects in internal control of financial reporting determined by the Company are as follows:

Defect Nature	Qualitative standards
Major defects	In any of the following circumstances, it can be determined that there is a material defect in the internal control of financial reporting: (1) Major malpractices of directors, supervisors and senior officers are found; (2) The Company corrects its published financial statements due to material misstatement; (3) Material misstatement is found in the financial statements of the current period, but the internal control fails to detect the misstatement in the course of operation; (4) The supervision of internal control by the audit committee and internal audit institution is ineffective; (5) The control environment is deemed invalid by the regulatory authority; (6) Penalties are imposed by regulatory bodies due to accounting errors; (7) Other defects that may affect the correct judgment of report users.
Important defects	In any of the following circumstances, it can be determined that there is an important defect in the internal control of financial reporting: 1) Failure to select and apply accounting policies in accordance with GAAP; 2) No anti-fraud procedures and control measures have been established; 3) No corresponding control mechanism has been established or implemented for accounting treatment of unconventional or special transactions, and there is

	no corresponding compensatory control; 4) There is one or more defects in the control of the period-end financial reporting process and the truth and accuracy of the financial statements cannot be reasonably guaranteed.
General defects	Other financial internal control defects that do not constitute major or important defects.

Notes:

None

### 3. Standards for identifying defects in internal control of non-financial reporting

The quantitative standards for evaluating defects in internal control of non-financial reporting determined by the Company are as follows:

Indicator Name	Quantitative standards for major defects	Quantitative standards for important defects	Quantitative standards for general defects
Net assets	Amount of direct property loss $\geq$ 2% of consolidated net assets	1% of consolidated net assets $\leq$ Amount of direct property loss $<$ 2% of consolidated net assets	Amount of direct property loss $<$ 1% of consolidated net assets

Notes:

None

The qualitative standards for evaluating defects in internal control of non-financial reporting determined by the Company are as follows:

Defect Nature	Qualitative standards
Major defects	In any of the following circumstances, it can be determined that there is a material defect in the internal control of non-financial reporting: (1) The Company seriously violates the rules and is punished with heavy fines or criminal liability; (2) Major production shutdown events are caused by production failures; (3) The incident causes the death of several employees or citizens; (4) Permanent pollution or irreparable damage is caused to the

	surrounding environment.
Important defects	In any of the following circumstances, it can be determined that there is an important defect in the internal control of non-financial reporting: (1) Unscientific decision-making procedures and mistakes in decision-making; (2) Violating national laws and regulations, such as environmental pollution; (3) continuous turnover of managerial or technical personnel; (4) The defects found in internal control evaluation, especially the major or important defects, are not rectified; (5) Lack of system control or systematic failure of system for important business.
General defects	Other non-financial internal control defects that do not constitute major or important defects.

Notes:

None

### **(III) Determination and rectification of defects in internal control**

#### **1. Determination and rectification of defects in internal control of financial reporting**

##### **1. 1. Major defects**

Whether the Company had any material defects in the internal control of financial reporting during the Reporting Period

Yes"  No"

##### **1. 2. Important defects**

Whether the Company had any important defects in the internal control of financial reporting during the Reporting Period

Yes"  No"

##### **1. 3. General defects**

All the general defects in financial reporting found in the internal control self-evaluation in 2022 have been rectified as of the date of report.

**1. 4. Whether the Company had any material defects in the internal control of financial reporting that have not been rectified as at the base date of the internal control evaluation report after the above rectifications**

" Yes" " No"

**1. 5. Whether the Company had any important defects in the internal control of financial reporting that have not been rectified as at the base date of the internal control evaluation report after the above rectifications**

" Yes" " No"

**2. Determination and rectification of defects in internal control of non-financial reporting**

**2. 1. Major defects**

Whether the Company had any material defects in the internal control of non-financial reporting during the Reporting Period

" Yes" " No"

**2. 2. Important defects**

Whether the Company had any important defects in the internal control of non-financial reporting during the Reporting Period

" Yes" " No"

**2. 3. General defects**

Some companies have the following general defects in non-financial reporting, which need to be further improved and perfected, including: some subsidiaries should strengthen the implementation of the system, enhance the awareness of leaving written traces, and prevent possible risks.

**2. 4. Whether the Company had any material defects in the internal control of non-financial reporting that have not been rectified as at the base date of the internal control evaluation report after the above rectifications**

" Yes" " No"

**2.5. Whether the Company had any important defects in the internal control of non-financial reporting that have not been rectified as at the base date of the internal control evaluation report after the above rectifications**

Yes"  No"

**IV. Explanation for other important matters related to internal control**

**1. Rectification of defects in internal control for the last year**

Applicable  Not Applicable"

**2. Operation of internal control in the current year and improvement direction for the next year**

Applicable  Not applicable"

In 2022, the Company continued to optimize the internal control management system, which promoted the improvement of management level. The existing internal control management system has covered all levels and links of the Company's operation, forming a standardized management system, which can adapt to the Company's management requirements. The Company has established systematic internal control and necessary internal supervision mechanism, which can prevent and timely discover and correct important errors and defects that may occur in our operation process, provide reasonable guarantee for the preparation of true, complete and fair financial statements, ensure the healthy operation of our business activities and the implementation of the internal control system, and protect the safety and integrity of our assets.

In 2023, in addition to the daily basic internal control work, we will focus on the following key work.

1. Improving the mechanism for preventing and controlling major risks. We will strengthen our awareness of preventing major risks, regularly identify and assess risks, prepare risk lists and response plans, track the implementation and handling of these risks, effectively manage and control major risks, strengthen dynamic management of information, regularly or irregularly implement risk identification, analysis and response, timely discover and respond to risks in operation and management, so as to improve the Company's risk management ability.

2. Enhancing risk asset management. We will deepen the monitoring of risk assets, keep track of risk assets, give timely early warnings on typical and common risks, optimize the inventory structure, improve the inventory control mechanism, strengthen the construction of collaborative supplier management information system, further improve the risky customer receivables management mechanism, and ensure proper credit management and implementation.

3. Strengthening project construction management. We will further improve the project management mechanism, strengthen personnel training, improve professionalism, optimize the review of investment budgets for new projects, strengthen control over the whole process of major tendering, improve the process management ability of engineering projects before, during and after the project, increase the frequency of site inspection by the headquarters, develop timely pre-control, analysis and solutions for problems existing in the process of project construction, in order to ensure the smooth and steady progress of the project.

Based on the requirements of internal control management, we will constantly improve the internal control management system, and strengthen the daily control of key areas, focusing on key businesses, key areas and important links of the Company's operation, and taking risk management as the guidance, so as to further improve our management level and risk prevention ability, and achieve the Company's strategic objectives.

### **3. Explanation for other important matters**

Applicable Not Applicable"

Chairman (authorized by the Board): Zheng Ju

Ningbo Shanshan Co., Ltd.

19 April 2023