

## **Special Explanation of Board of Directors of Ningbo Shanshan Co., Ltd on the Unqualified Audit Report with Emphasized Matters of the Company for 2023 and the Unqualified Audit Report with Emphasized Matters on the Internal Control**

BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO” or the “Auditing Firm”) has audited the 2023 financial report and internal control of Ningbo Shanshan Co., Ltd. (the “Company” or “Shanshan”) and issued the Unqualified Audit Report with Emphasized Matters (BDO Report [2024] No.ZA11873) and the Unqualified Audit Report with Emphasized Matters on the Internal Control (BDO Report [2024] No.ZA11874 ). In accordance with the relevant requirements of "Rules Governing the Disclosure of Information by Companies Issuing Public Securities No.14 - Non-standard Audit Opinions and the Handling of Matters Involved issued by the CSRC and the SSE Regulatory Guidelines for Self-discipline Supervision of Listed Companies No. 1 – Standard Operation (Revised in December 2023) and other relevant requirements, the Board of Directors of the Company hereby makes the following special explanations on the relevant matters:

### **I. Specific contents of the emphasized matters**

#### **(I) Contents of the emphasized matters in the Auditing Firm's audit report on the financial report for 2023**

We would like to draw the attention of the users of the financial statements to the fact that, as mentioned in Note XII (V) 5 to the financial statements, Shanshan Holdings Co., Ltd. ("Shanshan Holdings"), the controlling shareholder of Shanshan, appropriated Shanshan's funds totaling RMB808 million for non-operating purpose in 2023, with a balance of RMB80 million on 31 December 2023. As of the date of the audit report, Shanshan Holdings had fully repaid the principal and interest on the occupied funds.

The contents of this paragraph do not affect the audit opinion issued.

#### **(II) Contents of the matters in the Auditing Firm's audit report on the internal control for 2023**

We would like to draw the attention of the users of the internal control audit report to the fact that, in 2023, there was a non-operational appropriation of Shanshan’s funds by the controlling shareholder, Shanshan Holdings, and that there were significant

deficiencies in its internal control related to connected transactions and fund borrowing and lending. Shanshan had recovered the above funds and collected the corresponding interest before the date of this report. The contents of this paragraph do not affect the audit opinion issued on the internal control of financial reports.

## **II. Grounds and basis for the Auditing Firm to issue the unqualified opinion with explanatory paragraph**

According to Article 9 of Chinese Auditing Standard for Certified Public Accountants No. 1503 -- Adding an Emphasis of Matter Paragraph and Other Matter Paragraphs to the Audit Report, if it is deemed necessary to draw the attention of the users of the financial statements to the matters that have already been presented in the financial statements and that, in the light of professional judgment, are considered essential for the users of the financial statements to understand the financial statements, the certified public accountants shall add an emphasis of matter paragraph in the audit report if the following conditions are both met: (a) In accordance with Chinese Auditing Standard for Certified Public Accountants No. 1502 - Expressing an Unqualified Opinion in an Audit Report, this matter will not result in the issuance of an unqualified opinion by the certified public accountants; (b) When Chinese Auditing Standard for Certified Public Accountants No. 1504 - Communicating Critical Audit Matters in an Audit Report is applicable, the matter has not been identified as a critical audit matter to be communicated in the audit report.

In accordance with Articles 19 and 23 of Chinese Auditing Standard for Certified Public Accountants No. 1521 - Responsibilities of Certified Public Accountants for Other Information, if a certified public accountant believes that other information obtained prior to the date of the audit report is materially misstated and that the other information has not been corrected after communicating with the management, the certified public accountant shall take appropriate measures. If the CPA believes that there is an uncorrected material misstatement in the other information, he shall state the uncorrected material misstatement in the other information.

Shanshan Holdings, the controlling shareholder, appropriated the Company's funds totaling RMB808 million for non-operating purpose in 2023, with a balance of RMB80 million at the end of the period. This matter is very material and is considered to be critical to the understanding of the users of the financial statements.

The basis that the matters involved in the emphasis of matter paragraph will not affect the audit opinion expressed by the certified public accountant is set out below:

The above matter has been fully disclosed in the financial statements of Ningbo Shanshan Co., Ltd. for the year 2023, and the relevant funds have been fully recovered, which will not result in significant misstatements in the financial statements for the year 2023. The audit opinion issued by the CPA will not be affected.

### **III. Explanation of the Board on the matters involved in the emphasis of matter paragraph**

With regard to the Unqualified Audit Report with Emphasized Matters and the Unqualified Audit Report with Emphasized Matters on the Internal Control issued by the Auditing Firm, the Board respects the independent judgment of the accountants and has no objection to the Audit Report and the Internal Control Audit Report, and provides the following explanatory notes on the relevant matters:

(I) In terms of the funds of the Company being appropriated for non-operating purposes by Shanshan Holdings, the controlling shareholder, the Company had recovered the entire principal amount and the interest settled at the bank's lending rate for the same period before the date of report. Apart from that, there is no non-operational fund appropriation and illegal guarantee by major shareholders and connected parties, which encroach on the interests of the listed company.

(II) The Company's management has identified the relevant internal control deficiencies and included them in the Company's internal control evaluation report. The Auditing Firm has given due consideration to the impact of the relevant matters on the nature, timing and scope of audit procedures in the audit of the Company's 2023 financial statements and the audit of internal control. The management has formulated practical rectification measures for the relevant internal control deficiencies and implemented them in an orderly manner, and the Board will actively supervise the Company to implement the rectification measures and continue to standardize the internal control.

### **IV. Opinions of the Board on the emphasized matters**

BDO has issued an unqualified audit report with emphasized matters for 2023 in strict accordance with the principle of prudence, which is in line with the actual situation of the Company. The Board attaches great importance to the impact of the matters covered in the Audit Report on the Company and has taken timely, positive and effective measures to eliminate the impact of the relevant matters on the Company, so as to safeguard the interests of the Company and the investors.

The Board respects the independent judgment of the Auditing Firm in issuing an

unqualified opinion with an emphasis of matter paragraph for the Company's internal control, and the Auditing Firm's addition of the emphasis of matter paragraph is aimed at drawing the attention of the users of the internal control audit report to the relevant contents, which does not affect the effectiveness of the Company's internal control over financial reporting. The management has formulated corresponding rectification measures for the identified internal control deficiencies and implemented them in an orderly manner. Subsequently, the Company will continue to improve its internal control and effectively enhance its internal control in strict accordance with the Basic Standard for Internal Control of Enterprises and other relevant regulations.

#### **V. Specific measures for eliminating the relevant matters and their impacts**

All directors and senior management of the Company attach great importance to the matters involved in the emphasis of matter paragraph as stated by the Auditing Firm and have actively taken the following measures to eliminate the impact:

(I) Carrying out comprehensive and in-depth self-examination, taking active measures to promote the recovery of the funds.

After the discovery of the relevant matter, the Company immediately organized self-examination and rectification with the chairman as the first responsible person, comprehensively sorted out the capital transactions with the controlling shareholder, verified the substance of the transactions, and compiled statistics on the actual fund occupation. We actively communicated with the controlling shareholder to agree on a plan for the return of funds and supervise the implementation of the return of funds, trying our best to minimize the adverse impact on the listed company and safeguard the interests of the Company and the minority shareholders. As of 1 April 2024, Shanshan Holdings, the controlling shareholder, had returned to the Company all the principal amount of the occupied funds as well as the interest accrued during the period of occupation.

(II) Comprehensively promoting internal control and rectification work, and strictly improving the system and process of fund management and connected transactions.

The Company has carried out a comprehensive review of the internal control system and implemented corrective actions in an orderly manner. As of the date of this note, the Company has comprehensively sorted out internal control risk points, standardized process management, established a long-term mechanism for risk prevention, and particularly strengthened the improvement of fund management and connected transaction systems, and established a multi-dimensional monitoring

mechanism, in order to prevent the Company's funds from being used in violation of the law and avoid the recurrence of non-operational fund appropriation by controlling shareholders and connected parties.

1. We will conduct further self-examination of the existing fund management system and approval process, establish a whole-chain gate-keeping mechanism for the flow of funds, and appoint an independent risk-control officer, so as to realize the source control and dynamic management of fund risks;

2. For large fund transfers, we will strictly verify the business background, contractual agreements, etc., and conduct substantive judgment rather than procedural review of commercial reasonableness to prevent hidden non-operational fund appropriation by controlling shareholders and connected parties;

3. We will introduce independent directors to participate in the internal approval of large capital flows and give full play to the role of third-party supervision and auditing. We will also further strengthen the internal supervision of the Company by the Audit Committee under the Board, and further enhance the Company's compliance management and risk prevention capabilities;

4. The head of finance of the Company will inspect the financial situation of its subsidiaries on a regular and irregular basis, and report to the Board in a timely manner on the review of the non-operating fund transactions of the controlling shareholders and connected parties;

5. We will strengthen the identification of connected parties and strictly manage the connected transactions and capital transactions. The Company has designated a person to regularly sort out and update the list of connected parties with the controlling shareholders and others based on the connected party identification principle of substance over form, and send it to the Company's financial staff. The relevant personnel are required to pay practical attention to connected transactions and capital transactions in the flow of transactions, and suspicious situations should be reported and communicated in a timely manner to prevent the recurrence of irregularities.

6. We will enhance the internal audit. The Company will improve the functions of the internal audit department and strengthen the supervision of the internal audit department over the implementation of the internal control system. The internal audit department of the Company will further pay close attention to and follow up the large fund transactions, report to the Audit Committee in a timely manner on doubtful capital transactions, and urge the Company to strictly fulfill the relevant approval procedures.

(III) Enhancing the study of relevant laws and regulations and various securities regulatory rules to strengthen the awareness of compliance.

In the subsequent day-to-day management, the Company will strengthen the organization of training to promote the controlling shareholders to enhance the awareness of compliance and strictly abide by the bottom line of compliance, as well as to enhance the legal awareness of the Company's and its subsidiaries' management, finance and other relevant personnel, and to promote the improvement of corporate governance.

1. The Company will organize the controlling shareholders, all management personnel and financial personnel of the Company to study carefully the Regulatory Guidelines for Listed Companies No. 8 – Regulatory Requirements for Capital Transaction and External Security, the Measures for the Administration of Information Disclosure of Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and other laws, regulations and normative documents as well as the Articles of Association of Ningbo Shanshan Co., Ltd., the Measures for Management of Connected Transactions of Ningbo Shanshan Co., Ltd. And other relevant systems, to raise legal and risk awareness and pay special attention to connected transactions in order to resolutely prevent the recurrence of such matters;

2. The Company will strengthen the risk control responsibilities of key management positions and personnel and enhance their awareness of standardized operations by hiring external consulting institutions to provide on-site or online lectures, and by regularly collecting, collating and sharing cases of non-compliance and violation of laws by listed companies as well as punitive measures;

3. The Company will organize the controlling shareholders, directors, supervisors and senior management to participate in the relevant training on securities laws and regulations, the latest regulatory policies and compliance operations in accordance with the requirements of the regulatory authorities;

4. The Company will further strengthen the implementation and training of the Company's internal control system for the relevant management and key position holders of the Company and industrial companies, require the relevant personnel to familiarize themselves with the requirements of the Company's internal control system and strictly implement them, enhance their awareness of standardized operations and legal risks through regular inspections and internal control evaluations, strengthened internal control supervision and inspections, and other initiatives. We should resolutely keep the alarm bells ringing.

In conclusion, the Company will strictly prevent controlling shareholders and connected parties from appropriating funds of listed companies, and resolutely prevent the recurrence of non-operational appropriation of funds by controlling shareholders and their connected parties.

The Company will take this opportunity to enhance the awareness of standardized operation of all staff, consolidate the role of third-party supervision, and improve the construction and operation of the internal control system by further strengthening financial management, strictly regulating connected transactions, regular inspection and internal control evaluation, strengthening internal control supervision and inspection and other measures, so as to promote the establishment of a more standardized and scientific long-term mechanism of internal governance, effectively safeguard the legitimate rights and interests of the Company and all shareholders, and achieve long-term healthy and sustainable development of the Company.

It is hereby clarified.

Board of Directors of Ningbo Shanshan Co., Ltd.

25 April 2024