

Fangda Carbon New Material Co., Ltd.

Evaluation Report on Internal Control

For 2023

To all shareholders of Fangda Carbon New Material Co., Ltd.:

In accordance with the provisions of the *"Basic Standard for Enterprise Internal Control"* and its relevant guidelines and other regulatory requirements for internal control (hereinafter referred to as the standard system for enterprise internal control), and in conjunction with the internal control system and evaluation methods of Fangda Carbon New Material Co., Ltd. (hereinafter referred to as Fangda Carbon, the Company or Company), and on the basis of daily and specialised supervision of internal control, we have evaluated the effectiveness of internal control of the Company as at 31 December 2023 (the base date of the report).

I. Important Statement

The Board of Directors of the Company is responsible for establishing sound and effective internal controls in accordance with the provisions of the standard system for enterprise internal control, to evaluate their effectiveness and to truthfully disclose the internal control evaluation report. The Supervisory Committee supervises the process of internal control established

and implemented by the Board of Directors. The management is responsible for coordinating daily operation of the internal control of the Company. The Board of Directors, the Supervisory Committee and the Directors, Supervisors and senior managers of the Company warrant that there are no false records, misleading statements or major omissions in the contents of this report and shall bear individual and joint legal liabilities for the truthfulness, accuracy and completeness of its contents.

The objectives of the Company's internal control are to reasonably ensure that the operation and management are lawful and compliant, the assets are safe, the financial reports and related information are true and complete, to ameliorate the efficiency and effectiveness of the operation, and to facilitate the realization of the development strategy. Due to the inherent limitations of internal control, only reasonable assurance can be provided to achieve the above objectives. In addition, there is a risk of speculating on the effectiveness of internal controls in the future based on the results of internal control evaluations, as changes in circumstances may cause internal controls to become inappropriate or the degree of adherence to control policies and procedures to be reduced.

II. Conclusion of the evaluation of internal controls

(I) Whether the Company had a major deficiency in internal control over financial reporting as of the base date of the internal control evaluation report

☐Yes ☒No

(II) Conclusion of the evaluation of internal control over financial reporting

☒effective ☐ineffective

Based on the identification of major deficiency in the Company's internal control over financial reporting, as at the base date of the internal control evaluation report, there were no major deficiency in internal control over financial reporting, and the Board of Directors believe that the Company has maintained, in all material respects, effective internal control over financial reporting in accordance with the requirements of the standard system for enterprise internal control and the relevant regulations.

(III) Whether any major deficiencies in internal control over non-financial reporting have been identified

☐Yes ☒No

Based on the determination of major deficiency in the

Company's internal control over non-financial reporting, no major deficiency in internal control over non-financial reporting was identified as of the base date of the internal control evaluation report.

(IV) Factors affecting the conclusions of the evaluation of the effectiveness of internal control between the base date of the internal control evaluation report and the date of issuance of the internal control evaluation report

☐Applicable ☒Inapplicable

There were no factors affecting the conclusion of the evaluation of the effectiveness of internal control between the base date of the internal control evaluation report and the date of issuance of the internal control evaluation report.

(V) Whether the internal control audit opinion is consistent with the conclusion of the Company's evaluation of the effectiveness of internal control over financial reporting

☒Yes ☐No

(VI) Whether the disclosure of major deficiencies in 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. Status of internal control evaluation work

(I) Scope of internal control evaluation

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

i. The main entities included in the scope of the evaluation include:

Fushun Carbon Co., Ltd., Hefei Carbon Co., Ltd., Chengdu Rongguang Carbon Co., Ltd., Changfeng Fangda Carbon Material Co., Ltd., Chengdu Fangda Carbon & Carbon Composite Material Co., Ltd., Shanghai Fangda Investment Management Co., Ltd., Fushun Laihe Mining Co., Ltd., Fushun Fangda High-tech Material Co., Ltd., Fangda Xikemo (Jiangsu) Pinker Technology Co., Ltd.

ii. Proportion of entities included in the evaluation:

Indicator	Proportion (100%)
Ratio of the total assets of the entities included in the evaluation scope to the total assets of the Company's consolidated financial statements	100
Ratio of the total operating revenue of the entities included in the scope of evaluation to the total operating revenue of the Company's consolidated financial statements	100

iii. Major operations and matters included in the scope of the evaluation include:

The main operations and matters include: organisational

structure, development strategy, human resources, corporate culture, asset management, internal information transfer, fund management, engineering project management, safety production management, technical quality management, comprehensive budget management, procurement operations, sales operations, research and development operations, financial reporting, contract management, investment and financing, related party transactions and information system.

iv. High-risk areas of focus mainly include:

Risk of maintaining stable and growing product market share, risk of product price fluctuation, risk of collectability of accounts receivable, operational management risks such as significant procurement costs, significant investment payments, inventory costs and expenses, production costs and efficiency and accounting control systems.

v. Whether there are any material omissions in the above entities, operations and matters as well as high-risk areas covering the main aspects of the Company's operation and management as included in the scope of evaluation

☐Yes ☒No

vi. Existence of statutory exemptions

☐Yes ☒No

vii. Other clarifications

None

(II) Basis for internal control evaluation and criteria for identifying internal control deficiencies

The Company organises and carries out internal control evaluations based on the standard system for enterprise internal control and the Company's internal control manual and evaluation methods.

i. Whether the specific identification criteria for internal control deficiencies have been adjusted compared to previous years

☐Yes ☒No

The Board of Directors of the Company has studied and determined the specific identification criteria for internal control deficiencies applicable to the Company in accordance with the requirements for the identification of major deficiencies, significant deficiencies and general deficiencies under the standard system for enterprise internal control, taking into account factors such as the size of the Company, the characteristics of the industry, the risk appetite and the level of risk tolerance, and distinguishing between internal control for financial reporting and internal control for non-financial

reporting, and has maintained the criteria in line with those of the previous years.

ii. Criteria for identifying deficiencies in internal control over financial reporting

The quantitative criteria established by the Company for evaluating deficiencies in internal control over financial reporting are set forth below:

Name of Indicator	Quantitative Criteria for Major Deficiencies	Quantitative Criteria for Significant Deficiencies	Quantitative Criteria for General Deficiencies
Potential misstatement of operating revenue	0.5% of total operating revenue $\leq$ misstatement	0.2% of total operating income $\leq$ misstatement $<$ 0.5% of total operating revenue	Misstatement $<$ 0.2 % of total operating revenue
Potential misstatement of total profit	5% of total profit $\leq$ misstatement	2% of total profit $\leq$ misstatement $<$ 5% of total profit	Misstatement $<$ 2% of total profit
Potential misstatement of total assets	0.5% of total assets $\leq$ misstatement	0.2% of total assets $\leq$ misstatement $<$ 0.5% of total assets	Misstatement $<$ 0.2 % of total assets
Potential misstatement of owners' equity	0.5% of total owner's equity $\leq$ misstatement	0.2% of total owner's equity $\leq$ misstatement $<$ 0.5% of total owner's equity	Misstatement $<$ 0.2% of total owner's equity

The qualitative criteria established by the Company for evaluating deficiencies in internal control over financial reporting are set forth below:

Nature of deficiency	Qualitative criteria
Major Deficiencies	A single deficiency or a combination of other deficiencies results in an inability to prevent or detect and correct a material misstatement in a financial report in a timely manner. A major deficiency is considered to exist when: 1) the control environment is ineffective; 2) fraudulent acts by directors, supervisors and senior management; 3) an external audit finds a material misstatement in the current period's financial report, and the Company fails to detect the misstatement in the course of its operations; 4) major deficiency that was identified and reported to the management has not been corrected

	after a reasonable period of time; 5) ineffective supervision of the internal control by the Company's Audit Committee and the Audit Department; and 6) other deficiencies that may affect the proper judgement of the users of the statements.
Significant Deficiencies	Deficiencies, individually or in combination with other deficiencies, result in an inability to prevent or detect and correct in a timely manner misstatements in financial reporting that, although they do not meet and exceed the level of materiality, nonetheless warrant management's attention.
General Deficiencies	Other internal control deficiencies that do not constitute major deficiencies or significant deficiencies.

iii. Criteria for identifying deficiencies in internal control over non-financial reporting

The quantitative criteria for evaluating deficiencies in internal control over non-financial reporting determined by the Company are as follows:

Name of Indicator	Quantitative Criteria for Major Deficiencies	Quantitative Criteria for Significant Deficiencies	Quantitative Criteria for General Deficiencies
Amount of direct property loss	Above 10 million yuan	5 million yuan -10 million yuan (including 10 million yuan)	Below 5 million yuan (including 5 million yuan)
Significant negative impact	Causing significant negative impact on the Company and disclosing it to the public in the form of public announcements	Potentially being punished by government at the national level without causing negative impact on the Company	Being punished by government departments below the provincial level (including provincial level) without causing negative impact on the Company.

The qualitative criteria for evaluating deficiencies in internal control over non-financial reporting identified by the Company are set forth below:

Nature of deficiency	Qualitative criteria
Major Deficiencies	1) serious violation of national laws, regulations or regulatory documents; 2) unscientific major decision-making procedures; 3) lack of systems that may lead to systemic failures; 4) major or significant deficiencies that cannot be rectified; and 5) other circumstances that have a significant impact on the Company.
Significant Deficiencies	Other internal control deficiencies that do not constitute major deficiencies.

General Deficiencies	Other internal control deficiencies that do not constitute major deficiencies or significant deficiencies.
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(III) Identification and rectification of internal control deficiencies

i. Identification and rectification of deficiencies in internal control over financial reporting

(i) Major Deficiencies

Whether the Company had any major deficiencies in internal control over financial reporting during the reporting period

☐Yes ☒No

(ii) Significant Deficiencies

Whether the Company had any significant deficiencies in internal control over financial reporting during the reporting period

☐Yes ☒No

(iii) General Deficiencies

General deficiencies may exist in the daily operation of internal control processes. As the Company's internal control has established a dual supervision mechanism of self-evaluation and internal audit, corrective measures will be taken as soon as the internal control deficiencies are identified and confirmed, so that the risks will be controllable and the operation of the Company's internal control system will not be materially affected.

(iv) As a result of the above rectification, as at the base date of the internal control evaluation report, whether the Company has any major deficiencies in internal control over financial reporting for which rectification has not been completed

☐Yes ☒No

(v) As a result of the above rectification, as at the base date of the internal control evaluation report, whether the Company has any significant deficiencies in internal control over financial reporting for which corrections have not been completed

☐Yes ☒No

ii. Determination of deficiencies in internal control over non-financial reporting and status of corrective actions

(i) Major Deficiencies

Whether the Company has identified major deficiencies in internal control over non-financial reporting during the reporting period

☐Yes ☒No

(ii) Significant Deficiencies

Whether the Company has identified significant deficiencies in internal control over non-financial reporting during the reporting

period

☐Yes ☒No

(iii) General Deficiencies

General deficiencies may exist in the daily operation of internal control processes. As the Company's internal control has established a dual supervision mechanism of self-evaluation and internal audit, corrective measures will be taken once the internal control deficiencies are identified and confirmed, so that the risks will be controllable and the operation of the Company's internal control system will not be materially affected.

(iv) After the above rectification, as at the base date of the internal control evaluation report, whether the Company has identified any major deficiencies in internal control over non-financial reporting for which rectification has not been completed

☐Yes ☒No

(v) As a result of the above rectification, as at the base date of the internal control evaluation report, whether the Company has identified any significant deficiencies in internal control over non-financial reporting for which rectification has not been completed

☐Yes ☒No

IV. Description of other significant internal control-related matters

(I) Rectification of internal control deficiencies in the previous year

☐Applicable ☒Inapplicable

(II) Operation of internal control in the current year and direction for improvement in the next year

☐Applicable ☒Inapplicable

(III) Statement of other significant matters

☐Applicable ☒Inapplicable

Chairman (Authorised by the Board of Directors): Ma Zhuo

Fangda Carbon New Material Co., Ltd.

2 April 2024