



FangDa Carbon New Material Co., Ltd.
Internal Control Evaluation Report 2022

To All Shareholders of FangDa Carbon New Material Co., Ltd.:

In accordance with the provisions of the Basic Internal Control Norms for Enterprises and its supporting guidelines and other internal control supervision requirements (hereinafter referred to as the Enterprise Internal Control Norms System), based on the internal control system and evaluation measures of Fangda Carbon New Material Co., Ltd.(hereinafter referred to as the Company) and the daily and special supervision of internal control, we evaluated the effectiveness of the Company's internal control as of 31 December, 2022 (the Benchmark Date of the Internal Control Evaluation Report).

I. Important statement

It is the responsibility of the Company's Board of Directors to establish, improve and effectively implement internal control, evaluate its effectiveness, and truthfully disclose the Internal Control Evaluation Report in accordance with the regulations of the Enterprise Internal Control Norms System. The Board of Supervisors shall supervise the establishment and implementation of internal control by the Board of Directors. The Management shall be responsible for organizing and leading the daily operation of internal control of the enterprise. The board of directors, supervisory board, directors, supervisors, and senior management of the Company guarantee that there are no false records, misleading statements or major omissions in the content of this report, and they shall bear the individual legal responsibility and the joint and several legal responsibilities for the authenticity, accuracy and integrity of the content.

The objective of the Company's internal control is to reasonably ensure the legal compliance of operation and management, the safety of assets, the authenticity and integrity of financial reports and related information, improve operation efficiency and effect, and promote the realization of

development strategy. Due to the inherent limitations of internal control, it can only provide a reasonable guarantee to achieve the above objective. In addition, as changes in circumstances may cause internal control to become inappropriate or the degree of compliance with control policies and procedures to be reduced, there is a certain risk in predicting the effectiveness of future internal control based on the results of internal control evaluation.

II. Conclusion of internal control evaluation

(I) On the benchmark date of the internal control evaluation report, whether the Company has major deficiencies in the internal control of financial report.

☐ Yes ☒ No

(II). Conclusion of internal control evaluation of financial report

☒ Valid ☐ Invalid

According to the identification of major deficiencies in internal control in financial report, there was no major deficiencies in internal control of financial report on the benchmark date of internal control evaluation report. The board of directors believes that the Company has maintained effective internal control of financial report in all major aspects in accordance with the requirements of the enterprise internal control standard system and relevant regulations.

(III) Whether the major deficiencies in the internal control of non-financial report have been found

☐ Yes ☒ No

According to the identification of major deficiencies in internal control of non-financial reports, the Company found no major deficiencies in internal control of non-financial reports on the benchmark date of internal control evaluation report.

(IV) Factor affecting the evaluation conclusion of effectiveness of internal control from the benchmark date of internal control evaluation report to the issuing date of internal control evaluation report,

☐Applicable ☒ Not applicable

From the benchmark date of internal control evaluation report to the issuing date of internal control evaluation report, there was no factor affecting the evaluation conclusion of effectiveness of internal control.

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

☒ Yes ☐ No

(VI) Whether the disclosure of major deficiencies of internal control of non-financial report in the internal control audit report is consistent with the disclosure in the internal control evaluation report of the Company.

☒ Yes ☐ No

III. Internal control evaluation work

(I) Scope of internal control evaluation

The Company determines the main entities, businesses, matters, and high-risk areas to be included in the evaluation scope based on the risk oriented principle.

1. The main entities included in the evaluation scope include: Fushun Carbon Co., Ltd., Hefei Carbon Co., Ltd., Chengdu Rongguang Carbon Co., Ltd., Changfeng Fangda Carbon Material Co., Ltd., Chengdu Carbon Material, Shanghai Fangda Investment Management Co., Ltd., Fushun Laihe Mining Co., Ltd. and Fushun Fangda High and New Materials Co., Ltd.

2. Proportion of entities included in the evaluation scope:

Index	Proportion (%)
Ratio of the total amount of the assets of the entity included in the scope of evaluation to the total amount of the assets in the consolidated financial statements of the Company	100
Ratio of the total operating income of the entity included in the scope of evaluation to the total operating income in the consolidated financial statements of the Company	100

3. The main businesses and matters included in the evaluation scope include:

The main businesses and matters include: organizational structure, development strategy, human resources, corporate culture, asset management, internal information transmission, fund management, engineering project management, safety production management, technical quality management, comprehensive budget management, procurement, sales, research and development, financial reporting, contract management, investment and financing, related-party transactions, and information systems.

4. The high-risk areas of focus mainly include:

The risks of maintaining stable and growing market share of products, fluctuations in product prices, recoverability of accounts receivable, significant procurement costs, significant investments, inventory costs, production costs and efficiency, and operational management risks such as accounting control system.

5. The entities, businesses, and matters included in the evaluation scope, as well as high-risk areas, cover the main aspects of the Company's operation and management. Are there any significant omissions

☐ Yes ☒ No

6. Whether there is a statutory exemption

☐ Yes ☒ No

7. Other notes

None

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

The Company organizes and conducts internal control evaluation in accordance with the Enterprise Internal Control Norms System, internal control manual, and evaluation methods.

1. Are there any adjustments to the specific identification standards for internal control deficiencies compared to the previous year

☐ Yes ☒ No

The Board of Directors of the Company distinguishes between internal control over financial report and non-financial report based on the identification requirements for major, important, and general deficiencies in the Enterprise Internal Control Norms System, taking into account factors such as company size, industry characteristics, risk preference, and risk tolerance, and studied and determined the specific identification standards for internal control deficiencies applicable to the Company, which are consistent with the previous year.

2. Standards for identification of internal control deficiencies of financial report

The quantitative standards for evaluating the internal control deficiencies in financial report determined by the Company are as follows:

Name of index	Quantitative standards for major deficiencies	Quantitative standards for important deficiencies	Quantitative standards for general deficiencies
Potential misstatement of operating income	0.5% of the total amount of the operating income $\leq$ misstatement	0.2% of the total amount of the operating income $\leq$ misstatement $<$ 0.5% of the total amount of the operating income	Misstatement $<$ 0.2% of the total amount of the operating income
Potential misstatement of total amount of profit	5% of the total amount of profit $\leq$ misstatement	2% of the total amount of profit $\leq$ misstatement $<$ 5% of the total amount of profit	Misstatement $<$ 2% of the total amount of profit
Potential misstatement of total amount of assets	0.5% of the total amount of assets $\leq$ misstatement	0.2% of the total amount of assets $\leq$ misstatement $<$ 0.5% total amount of assets	Misstatement $<$ 0.2% of the total amount of assets
Potential misstatement of owners' equity	0.5% of the total owners' equity $\leq$ misstatement	0.2% of the total owners' equity $\leq$ misstatement $<$ 0.5% of the total owners' equity	Misstatement $<$ 0.2% of the total owners' equity

The qualitative standards for evaluating the internal control deficiencies in financial report determined by the Company are as follows:

Nature of deficiency	Qualitative standard
Major deficiencies	A deficiency, individually or in combination with other deficiencies, results in the failure to prevent or detect and correct material misstatements in financial statements in a timely manner. Any of the following circumstances shall be identified as a major deficiency: 1) The control of the environment is ineffective; 2) Fraud of directors, supervisors, and senior management;

	3) The external audit discovers the material misstatement in the current financial report, and the Company does not discover the material misstatement in the process of operation; 4) Major deficiencies that have been identified and reported to management have not been corrected within a reasonable period of time; 5) Ineffective supervision of internal control by the Audit Committee and audit department of the Company; 6) Other deficiencies that may affect the correct judgment of report users.
Important deficiencies	A deficiency, individually or in combination with other deficiencies, results in the failure to prevent or detect and correct the misstatements in the financial statements in a timely manner that do not reach or exceed the level of materiality but should still be taken seriously by the Management.
General deficiencies	Other internal control deficiencies that do not constitute major or important deficiencies.

3. Standards for identification of internal control deficiencies of non-financial report

The quantitative standards for evaluating the internal control deficiencies in non-financial report determined by the Company are as follows:

Name of index	Quantitative standards for major deficiencies	Quantitative standards for important deficiencies	Quantitative standards for general deficiencies
Direct property loss amount	More than RMB 10 million	RMB 5 million to 10 million (inclusive)	Less than RMB 5 million (inclusive)
Significant negative impact	Causing significant negative impact on the Company and disclosing it to the public in the form of an announcement	Or punished by national government department without causing negative impact on the Company	Punished by government departments at or below the provincial level, but did not have a negative impact on the Company

The qualitative standards for evaluating the internal control deficiencies in non-financial report determined by the Company are as follows:

Nature of deficiency	Qualitative standard
Major deficiencies	1) Serious violations of national laws, regulations, or normative documents; 2) Major decision-making procedures are not scientific; 3) Lack of institutions may lead to systemic failure; 4) Major or important deficiencies cannot be rectified; 5) Other circumstances that have a significant impact on the Company.
Important deficiencies	Other internal control deficiencies that do not constitute major deficiencies.
General deficiencies	Other internal control deficiencies that do not constitute major or important deficiencies.

(III) Identification and rectification of internal control deficiencies

1. Identification and rectification of internal control deficiencies in financial report

1.1 Major deficiencies

During the reporting period, whether the Company has found any major deficiencies in the internal control of financial report.

☐ Yes ☒ No

1.2 Important deficiencies

During the reporting period, whether the Company has found any important deficiencies in the internal control of financial report.

☐ Yes ☒ No

1.3 General deficiencies

Internal control processes may have general deficiencies in daily operation. As the Company's internal control has established a dual supervision mechanism of self-evaluation and internal audit, corrective measures are taken once the internal control deficiencies are found and confirmed to make the risks controllable and do not constitute a material impact on the operation of the Company's internal control system.

1.4. After the above rectification, on the benchmark date of the internal control evaluation report, whether the Company has major deficiencies in the internal control of financial report that have not been rectified.

☐ Yes ☒ No

1.5. After the above rectification, on the benchmark date of the internal control evaluation report, whether the Company has important deficiencies in the internal control of financial report that have not been rectified.

☐ Yes ☒ No

2. Identification and rectification of internal control deficiencies in non-financial report

2.1 Major deficiencies

During the reporting period, whether the Company has found any major deficiencies in the

internal control of non-financial report.

☐ Yes ☒ No

2.2 Important deficiencies

During the reporting period, whether the Company has found any important deficiencies in the internal control of financial report.

☐ Yes ☒ No

2.3 General deficiencies

Internal control processes may have general deficiencies in daily operation. As the Company's internal control has established a dual supervision mechanism of self-evaluation and internal audit, corrective measures are taken once the internal control deficiencies are found and confirmed to make the risks controllable and do not constitute a material impact on the operation of the Company's internal control system.

2.4. After the above rectification, on the benchmark date of the internal control evaluation report, whether the Company has found any major deficiencies in the internal control of non-financial report that have not been rectified.

☐ Yes ☒ No

2.5. After the above rectification, on the benchmark date of the internal control evaluation report, whether the Company has found any important deficiencies in the internal control of non-financial report that have not been rectified.

☐ Yes ☒ No

IV. Explanation of other major matters related to internal control

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

☐ Applicable ☒ Not applicable

(II) Operation of internal control this year and improvement direction next year

☐ Applicable ☒ Not applicable

(III) Notes to other major events

☐ Applicable ☒ Not applicable

Chairman (authorized by the Board of Directors): Dang Xijiang
FangDa Carbon New Material Co., Ltd.
15 April, 2023