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

Shanshan Co., Ltd. (t 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 on31 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-

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

The above matter has been fully disclosed in the financial statements of Ningbo

unqualified opinion with an emphasis of matter paragraph for the Company's internal control, and the Auditing Firm

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-