

**KraussMaffei Company Limited**  
**Announcement on Replying the Working Letter of SSE on**  
**the Supervision of Information Disclosure of the Company's**  
**2020 Annual Report**

The Company and all members of its Board of Directors hereby confirm that all information disclosed herein is true, accurate and complete with no false or misleading statement or material omission.

KraussMaffei Co., Ltd. (hereinafter referred to as "the Company") has recently received a letter from the NO.1 supervision department of listed companies of Shanghai Stock Exchange *Working Letter on the Supervision of Information Disclosure of 2020 Annual Report of KraussMaffei Co., Ltd* (SZGH [2021] No. 0345) (hereinafter referred to as "the Working Letter"). The Company has carefully analyzed the questions listed in the Working Letter item by item, The answers to the relevant questions are as follows (unless otherwise specified, the interpretation adopted in this announcement is consistent with that in the Company's 2020 annual report):

**I、 on goodwill impairment and performance commitment**

**1. In April 2016, China National Chemical Equipment (Luxemburg) (hereinafter referred to as “CNCE Luxemburg”)**

acquired 100% equity of KraussMaffei Group GmbH (hereinafter referred to as “KM Group”) through acquisition under different control, and generated goodwill of 442 million euro at the consolidated statement level of CNCE Luxembourg. In December 2018, the Company issued shares to China Chemical Equipment Global holding (Hong Kong) Co., Ltd. (hereinafter referred to as CNCE Global) which is subordinate to the actual controller to purchase 100% equity of CNCE Luxembourg. CNCE Global made commitment and compensation arrangement for the net profit of CNCE Luxembourg from 2018 to 2020. The goodwill impairment of KM Group is directly related to the achievement of performance commitment of CNCE Luxembourg and the amount of performance compensation of the Company's controlling shareholder, CNCE Global. At the end of the reporting period, the book value of goodwill of KM Group was 3.527 billion yuan, accounting for 22.04% of the total assets of the Company.

1) The announcement shows that in 2019 and 2020, KM Group achieved new orders of 9.052 billion yuan and 7.281 billion yuan, a year-on-year decrease of 11.39% and 14.85%. The Company has conducted impairment test on the goodwill of KM Group for three consecutive years, but no provision for impairment has been made. The Company is requested to explain the reasons why the impairment of goodwill is not withdrawn in this year and the rationality of

**impairment test and whether it is consistent with the actual situation when the performance of KM Group continues to decline in combination with the specific situation of the impairment test of goodwill in this year, including the criteria, basis and results of the identification of asset group or portfolio of asset groups, the specific steps and detailed calculation process of the impairment test of goodwill, the basis and rationality of parameter index selection, etc.;**

The Company's Reply:

**(1) The criteria, basis and results of the identification of asset group or asset group portfolio.**

On December 31, 2020, in accordance with the requirements of accounting standards for business enterprises, the Company conducted an impairment test on the goodwill of the Company. The Company allocated goodwill to three asset group portfolios, namely injection molding, extrusion molding and reaction processing technology asset group portfolios.

According to the accounting standards for business enterprises No. 8 - impairment of assets, "the identification of asset group should be based on whether the main cash inflow generated by asset group is independent from the cash inflow of other assets or asset groups. At the same time, when identifying the asset group, we should consider the way that the enterprise management manages the production and operation activities (such as according to the production line, business type or according to the region,

etc.) and the decision-making way of the continuous use or disposal of the assets.”

Goodwill is allocated to three cash generating units (asset group portfolio), namely injection molding, extrusion molding and reaction processing technology, based on the following judgments:

1. According to the main products, KM Group’s products is divided into injection molding, extrusion molding and reaction processing technology division for management. In each business year, according to the analysis of market competition, price situation and sales situation of the previous year, and combined with the industry trends and their own judgment of the recent industry trend in the future, the three business divisions independently formulate their own production plans, and conduct purchasing, production and sales management respectively;

2. The R & D, manufacturing and sales of the main business of each business division are carried out independently. The product homogeneity of the three business divisions is high and the production mode is similar. There is no independent diversified business line or product line in the business divisions;

3. KM Group makes the budget of the three business divisions, and manages and assesses their operation and cash flow respectively. Each business division will dynamically adjust the production plan annually or

monthly according to the recent market trend, operation situation, orders in hand and sales situation.

To sum up, the Company takes the injection molding, extrusion molding and reaction processing technology business divisions as asset group portfolios respectively, and conducts impairment test as single asset group portfolio. Since the acquisition of CNCE Luxemburg in 2018, the Company has maintained consistency in the division of asset groups in the goodwill impairment test of each year.

**(2) The specific steps and detailed calculation process of goodwill impairment test, and the basis and rationality of parameter index selection. The explanations why the impairment of goodwill is not withdrawn in this year and the rationality of impairment test and whether it is consistent with the actual situation when the performance of KM Group continues to decline.**

On December 31, 2020, in accordance with the requirements of accounting standards for business enterprises, the Company conducted impairment test on the goodwill of the CNCE Luxemburg. The Company forecasts the recoverable amount of injection molding, extrusion molding and reaction processing technology asset group as the present value of its estimated future cash flow based on the macroeconomic environment, industry environment, and actual operation status in previous years and future operation planning, and compares it with its book value. According

to the impairment test results on December 31, 2020, the recoverable amount of the three asset group portfolios exceeds their book value, so the goodwill of CNCE Luxemburg has not been impaired on December 31, 2020.

The specific steps, detailed calculation process, basis and rationality of parameter index selection of goodwill impairment test on December 31, 2020 are as follows:

1. In April 2016, when CNCE acquired 100% equity of KM Group under different control, it carried out the valuation of acquisition consideration allocation (hereinafter referred to as "2016 Acquisition Consideration Allocation"). The difference between the acquisition consideration and the fair value of KM Group's identifiable net assets of 442 million euros is recognized as goodwill and allocated to the three asset groups of injection molding, extrusion molding and reaction processing technology. The transaction consideration of the acquisition is 736 million euros, the original value of goodwill in the Company's consolidated statements is the assessment result of 2016 Acquisition Consideration Allocation.

2. The specific steps, detailed calculation process, basis and rationality of parameter index selection of goodwill impairment test are as follows:

The Company forecasts the recoverable amount of related asset group as the present value of its estimated future cash flow based on the

macroeconomic environment, industry environment, and actual operation status in previous years and future operation planning, and compares it with its book value. The recoverable amount of the asset group is based on the three-year budget (forecast period) approved by the Board of Directors of KM Group, and then estimated on the basis of a fixed growth rate (stable period).

(1) On December 31, 2020 and December 31, 2019, the main assumptions used in calculating the recoverable amount of each asset group include:

Parameters used in annual impairment test in 2020	Injection molding	Extrusion molding	Reaction processing technology
Average annual growth rate of sales revenue in forecast period	12.15%	10.54%	15.05%
Growth rate of sales revenue in stable period	1.50%	1.50%	1.50%
Proportion of profit before tax, interest, depreciation and amortization in sales revenue	8.58%-14.21%	6.98%-11.56%	8.07%-13.37%
After tax discount rate	6.90%	6.90%	6.90%
Pretax discount rate	9.32%	9.32%	9.32%
Parameters used in annual impairment test in 2019	Injection molding	Extrusion molding	Reaction processing technology
Average annual growth rate of sales revenue in forecast period	5.58%	4.25%	6.17%
Growth rate of sales revenue in stable period	1.50%	1.50%	1.50%
Proportion of profit before tax, interest, depreciation and amortization in sales revenue	12.23%-14.17%	5.81%-10.43%	10.16%-13.47%
After tax discount rate	6.20%	6.20%	6.20%
Pretax discount rate	8.28%	8.28%	8.28%

(2) Selection basis of each parameter

① Average annual growth rate of sales revenue in forecast period

The forecast of the average annual growth rate of sales revenue in the forecast period is based on the three-year budget (forecast period) approved by the Board of Directors of KM Group and the Company's strategic planning.

The Company's failure to achieve the 2018 budget data in 2019 is mainly due to the increase of global political and economic uncertainties, which affects the slowing down of investment demand of the Company's main downstream customers in the automotive industry. At the same time, the plastic ban order issued by the European Parliament in March 2019 has greatly affected the customers in the downstream packaging industry of the Company, resulting in the weak order growth of the downstream packaging customers. In addition, due to the hacker attack on KM Group's information system in November 2018 and other factors, the budget data of 2018 was not realized in 2019. Among the above factors, in addition to the fact that the impact of hacker attacks has been eliminated in the second half of 2019, the Company has taken into account the impact of slower investment demand from downstream industries, especially major industries such as automobile and packaging, in formulating the budget data for 2020, and has lowered the relevant revenue forecast data on the basis of the impairment test of the previous year.

The Company failed to achieve the 2019 budget data in 2020 (that is, forecast revenue data of goodwill impairment in 2019), mainly due to the outbreak of global COVID-19 in 2020. Affected by COVID-19, the global economic downturn and the increasing uncertainties, on the one hand, KM Group's key downstream industries, such as automobile and packaging, are affected by the epidemic situation, and their investment willingness continues to be low, resulting in insufficient demand for KM Group's products; On the other hand, in order to cooperate with the government to fight against the epidemic, enterprises in downstream industries and KM Group have taken measures such as stopping production and so on. As a result, the operation rate of KM Group's factories in 2020 was seriously affected, the growth of customer orders was weak, and the revenue dropped sharply. In addition, novel coronavirus pneumonia epidemic continues to spread, and various travel restrictions have led to KM Group's multinational, transregional maintenance and other service businesses cannot be launched. KM Group's digital solution business revenue has also declined significantly.

Therefore, based on the actual sales situation in 2020, the Company took into account the following factors: (i) the impact of COVID-19 on revenue in the short term; (ii) implement the "China strategy", lay out the Chinese market, improve China's business capacity, optimize cost advantages and regional industrial layout to create new profit growth points; (iii) reorganize the internal organization structure, integrate the injection

molding, extrusion and reaction molding into two parts: production and sales of new machine and digital service and solution. After reorganization, by focusing on sales power, we can provide more products and services to the same customer at the same time, and create more business opportunities, which will help the Company focus more on customer, market and technical innovation in the future, and help reduce cost and efficiency, and improve market competitiveness; (iv) further actively expand downstream customers in non-automotive field and build diversified customer structure; (v) The order backlog was 481 million euros by the end of 2020, accounting for 43% of the budget revenue of KM Group in 2021; (vi) according to the revenue forecast of the German Federation of Mechanical and Equipment Manufacturing Industry ("VDMA"), the regional income in Europe, North America, Latin America, China, Middle East and other regions increased by a certain extent compared with 2020 in 2021, with China and Latin America growing faster, with an estimated growth rate of 10% and 9%. Even with COVID-19 vaccination limited, revenues in the machinery industry are expected to rise 6 percent in 2021. Based on the 2019 budget, the budget data of 2021-2023 are adjusted. The total predicted revenue in the next three years is 3.789 billion euros, slightly lower than the total predicted revenue of 3.883 billion euros in the next three years in 2019. It is applied to the goodwill impairment test in 2020 with the approval of the KM group board of directors. Please refer to the reply in question 1 (2) for details. In the first

quarter of 2021, KM Group signed 290 million euros of new orders, an increase of 22.75% compared with the first quarter of 2020, showing a good momentum of increase. By the end of March 2021, KM Group had order backlog of 565million euros, an increase of 17.46% from the end of 2020. In summary, based on the development strategy and the changes in industry demand, the Company believes that the sales revenue and corresponding growth rate of KM Group in the forecast period can be realized.

### ② Growth rate of sales revenue in stable period

When conducting goodwill impairment test in 2020 and 2019, taking into account the location of KM Group's main business and core operating assets, according to the annual average inflation rate (1.7% and 1.9% in 2020 and 2019 respectively) in Germany in the next five years and the annual average GDP growth rate (2.9% in 2020 and 1.3% in 2019) in predicted years disclosed by International Monetary Fund, the Company after comprehensive consideration, the growth rate of sales revenue used in stable period in goodwill impairment test in 2020 and 2019 is 1.5%.

### ③ Proportion of profit before tax, interest, depreciation and amortization in sales revenue

The forecast of the ratio of EBITDA to sales revenue is mainly based on the actual ratio of EBITDA to sales revenue in recent years and the Company's strategic planning.

In the prediction of the 2020 annual impairment test, the Company considered the actual performance of the three asset group portfolios in 2020, the continuing impact of COVID-19 in the short term, the future development strategy and the internal restructuring and profit optimization plan of CNCE Luxemburg, which was implemented in the first half of 2020. The proportion of the profit before tax, interest, depreciation and amortization in the sales revenue of 2021-2023 predicted by each asset group portfolio is adjusted. The purpose of the internal organizational restructuring plan is to further improve the Company's operational efficiency, optimize the workflow and improve the synergy; The profit optimization plan includes internal benefit coordination, voluntary resignation and other cost saving measures.

In 2020, the proportion of actual EBITDA in sales revenue of injection molding and reaction processing technology asset group is lower than that in 2019, while the proportion of actual EBITDA in sales revenue of extrusion molding asset group in 2020 is higher than that in 2019, from 1.75% in 2019 to 4.85% in 2020. Considering the above factors, in the 2020 impairment test, the proportion of injection molding and reaction processing technology asset group portfolio in the sales revenue before tax, interest, depreciation and amortization in the forecast period is lower than that in the 2019 impairment test, while the proportion of extrusion molding asset group

portfolio is higher in the 2020 impairment test. Please refer to the reply in question 1 (2) for details.

④ Discount rate

The discount rate is calculated by weighted average cost of capital (WACC). The calculation formula is as follows:

$$\text{WACC} = \text{after tax cost of debt} * \text{debt ratio} + \text{equity cost} * \text{equity ratio}$$

According to the above calculation, the weighted average cost of capital (WACC) or after tax discount rate on December 31, 2020 and December 31, 2019 are 6.9% and 6.2% respectively. By excluding the impact of income tax, the corresponding pretax discount rates are 9.32% and 8.28% respectively when they are equal to the present value of the estimated future net cash flow calculated by the after tax discount rate. Please refer to the Appendix for specific parameters and calculation process.

The discount rate used for goodwill impairment test of comparable companies is as follows:

<b>Name of comparable listed companies</b>	<b>Acquired companies</b>	<b>Place of operation of the acquired companies</b>	<b>2020</b>	<b>2019</b>
Zhuzhou Times New Material Technology Co., Ltd	CRRC New Material Technologies GmbH	Germany	12%	8.20%
Weichai Power Company Limited	Linde Hydraulics GmbH & Co. KG	Germany	6.30%	7.35%

Note: the data are taken from the 2020 annual report and 2019 annual report of the above companies.

The discount rate adopted in the goodwill impairment test in 2020 and 2019 of the Company is within the range of the discount rate adopted by the A-share listed companies that have acquired and reorganized German subsidiaries.

(3) Calculation process and specific steps

① Book amount of related asset group portfolios

As of December 31, 2020 and December 31, 2019, the carrying amount of each asset group portfolio including goodwill is as follows:

In thousands of euros

<b>project</b>	<b>injection molding</b>	<b>Extrusion molding</b>	<b>Reaction treatment technology</b>	<b>Total</b>
Book value of asset group portfolio including goodwill as at December 31, 2019	759,959.21	222,513.82	123,870.95	1,106,343.98
Book value of asset group portfolio including goodwill as at December 31, 2020	707,505.73	247,349.21	139,207.78	1,094,062.71

\*The original value of goodwill was converted into RMB at the exchange rate of December 31, 2019, which is RMB 2.090 billion, RMB 949 million and RMB 432 million respectively, totaling RMB 3.471 billion.

\*The original value of goodwill was RMB 2.122 billion, RMB 969 million and RMB 436 million at the exchange rate as of December 31, 2020, totaling RMB 3.527 billion.

② Recoverable amount of asset group portfolio

The Company evaluated the recoverable amount of three asset group portfolios on the benchmark date of December 31, 2020 and December 31, 2019 respectively. The income method was used for the evaluation, and the discounted cash flow model was used to determine the recoverable amount of the asset group.

The recoverable amount of each asset group portfolio on the base date of appraisal and its comparison with the book value are as follows:

	31 December 2020			31 December 2019		
	Recoverable amount	book value	Comparison of book value	Recoverable amount	book value	Comparison of book value
injection molding	1,097,918.32	707,505.73	155%	1,328,004.72	759,959.21	175%
Extrusion molding	353,179.32	247,349.21	143%	263,194.02	222,513.82	118%
Reaction treatment technology	211,628.05	139,207.78	152%	216,236.72	123,870.95	175%
total	1,662,725.69	1,094,062.71	152%	1,807,435.46	1,106,343.98	163%

The recoverable amount of the three asset group portfolios is higher than the book amount of the asset group portfolios, so there is no impairment on the base date. It can be seen that, compared with the assessment results on December 31, 2019, the recoverable amount of injection molding and reaction treatment technology asset group portfolios decreased on December 31, 2020, while the recoverable amount of extrusion molding asset group portfolio increased. This is mainly due to the fact that the operating results of injection molding and reaction treatment technology in 2020 are lower than expected, the operating results of extrusion molding are higher than

expected. Combined with the future development strategy of each business segment and the judgment of the future market and industry, the forecast of key assumptions such as operating revenue of each business segment is adjusted. Please refer to the reply to question 1 (2) below for the comparative analysis of specific factors in income method cash flow measurement.

**Reply of Zhong De Securities, CICC and China Securities:**

Since the acquisition of CNCE Luxemburg in 2018, the Company has divided the asset group into three asset groups, namely injection molding, extrusion molding and reaction processing technology in the goodwill impairment test of each year and maintained consistency. In the goodwill impairment test on December 31, 2020, the parameters selected by the Company are reasonable. According to the Company's impairment test results on December 31, 2020, the recoverable amount of the above three asset groups exceeds their book value, and the Company has not made provision for goodwill impairment.

**2) According to the announcement, in the impairment test of goodwill in 2020, the annual average growth rate of revenue of KM Group in the forecast period of injection molding, extrusion molding and reaction processing technology was adjusted from 5.58%, 4.25% and 6.17% to 12.15%, 10.54% and 15.05%, the pretax discount rate was adjusted from 8.28% to 9.32%, and the proportion of profit before tax, interest, depreciation and amortization in revenue was also**

**adjusted. Please explain the reasons and rationality of the above parameters adjustment in combination with the main business performance and the development of downstream industries of KM Group in recent years, and explain whether other parameters and assumptions of goodwill impairment test in this year have changed compared with previous tests. If so, please explain the changes and reasons;**

The Company's Reply:

Since the acquisition of KM Group by CNCE Luxemburg in 2016, CNCE Luxemburg has maintained the same caliber of goodwill impairment test methods, models and relevant indicators every year, including the selection basis of various parameters in discount rate calculation (including the selection of comparable companies). Therefore, the Company maintains consistency in goodwill impairment test method.

In the process of impairment test, the selected parameters will be adjusted according to the actual situation of each year. The comparative analysis of the main parameters adopted by the Company in the goodwill impairment test in 2019 and 2020 is as follows:

1. Operating income in the forecast period

In thousands of euros

project	Goodwill impairment test in 2020				Total forecast period (2021-2023)
	2020	2021	2022	2023	
	actual	forecast	forecast	forecast	
injection molding	631,140.00	682,106.90	772,989.77	890,236.69	2,345,333.36
Extrusion molding	273,250.00	282,813.75	320,495.41	369,108.09	972,417.25
Reaction treatment technology	117,512.00	137,124.78	155,395.08	178,965.37	471,485.23
total					3,789,235.84

In thousands of euros

project	Goodwill impairment test in 2019				Total forecast period (2020-2022)
	2019	2020	2021	2022	
	actual	forecast	forecast	forecast	
injection molding	766,672.04	806,123.31	855,125.84	902,392.79	2,563,641.94
Extrusion molding	278,763.19	257,756.02	269,424.66	315,837.21	843,017.89
Reaction treatment technology	135,609.29	154,340.33	159,408.33	162,310.33	476,058.99
total					3,882,718.82

During the goodwill impairment test in 2020 and 2019, based on the historical data of injection molding, extrusion molding and reaction processing technology, the operating revenue of the year, combined with the development strategy, industry expectations and macro environment changes, the Company predicted the operating revenue indicators respectively.

The global economics was severely damaged by the outbreak of new crown pneumonia in 2020, and consumption and investment have been in a low level. Transnational and transregional business activities cannot be carried out, and the manufacturing and operation of overseas manufacturing enterprises are seriously affected. Affected by the novel coronavirus pneumonia and downstream customers' discontinued production, the CNCE Luxemburg stopped working for more than a month. In addition, the novel coronavirus pneumonia causes the use rate of machines and the demand of spare parts to decrease, resulting in reduced service. Travel restrictions result in serious cross-border services. In 2020, the number of new orders of CNCE Luxemburg digital service business decreased, resulting in a sharp drop in revenue. (1) The operating revenue of injection molding and reaction processing technology asset group in 2020 did not reach the level predicted in 2019. Therefore, in the goodwill impairment test in 2020, combined with the changes of external market environment and the actual situation in 2020, the total amount of operating revenue of injection molding and reaction processing technology asset group in the forecast period is lower than that in 2019. (2) At the same time, due to the long production cycle of extrusion asset group portfolio, the novel coronavirus pneumonia epidemic impact on it is lower, and KM Group actively develop new chemical materials and other key customers, the effect is more than expected, business income of extrusion assets group

portfolio in 2020 exceeded the level of 2019 forecast, so the Company's extrusion business income forecast is higher than the 2019 impairment test.

The average income growth rate of each asset group portfolio in the forecast period is as follows:

project	2020 Goodwill impairment test	2019 Goodwill impairment test
injection molding	12.15%	5.58%
Extrusion molding	10.54%	4.25%
Reaction treatment technology	15.05%	6.17%

In terms of injection molding and reaction processing technology portfolio, due to the actual sales revenue in 2020 is lower than that in 2019, which leads to the base of income growth rate calculation in 2020 impairment test is lower than that in 2019, which shows that the average growth rate of income in 2020 goodwill impairment test is higher than that in 2019 impairment test. In fact, as mentioned above, in terms of absolute value, the sales revenue in forecast period of injection molding and reaction processing technology asset group portfolio in 2020 is lower than that in 2019.

The actual performance of the extruded asset group portfolio in 2020 exceeded the expectation, and the actual revenue exceeded the predicted value in 2019 by about 6%. Therefore, the Company correspondingly increased the average annual growth rate of sales revenue in the forecast period of the asset group portfolio.

## 2. Income growth rate in stable period

When the company conducts the goodwill impairment test in 2020 and 2019, the revenue growth rate in the stable period does not change.

### 3. Proportion of EBITDA in sales revenue of CNCE Luxemburg

project	2020 Goodwill impairment test				2019 Goodwill impairment test			
	2020 actual	2021 forecast	2022 forecast	2023 forecast	2019 actual	2020 forecast	2021 forecast	2022 forecast
injection molding	5.29%	8.58%	11.57%	14.21%	8.26%	12.23%	13%	14.17%
Extrusion molding	4.85%	6.98%	9.41%	11.56%	-1.75%	5.81%	7.41%	10.43%
Reaction treatment technology	-0.47%	8.07%	10.89%	13.37%	3.12%	10.16%	12.14%	13.47%

In 2020, due to the impact of the epidemic, the orders and operating revenue of the injection molding and reaction processing technology division were affected to varying degrees. Meanwhile, the expenses such as depreciation and amortization have certain rigidity. As a result, the proportion of profit before tax, interest, depreciation and amortization in the sales revenue in 2020 decreased significantly compared with the forecast data in 2019. Considering that the main products usually need several months' production cycle from new orders to product delivery, and the insufficient absorption of expenses during the period may still have an impact on 2021, the management of KM group correspondingly reduced the proportion of the EBITDA in the sales revenue predicted by the portfolio of injection molding and reaction processing technology in the goodwill impairment test in 2020.

Benefiting from the lower affected by COVID-19 because of long production cycle and the overall recovery of the relevant market is more than expected, and the closure of Munich's inefficient extrusion plant, The ratio of actual EBITDA to sales revenue of extrusion division in 2020 increased from -1.75% in 2019 to 4.85% in 2020. Considering the great development potential of extrusion business such as renewable materials business in the future, the order growth and scale production effect brought by the expansion of extrusion business in China and other Asian regions, as well as the cost saving effect brought by restructuring and layoff plans, the impairment test in 2020 will, The proportion of EBITDA in sales revenue predicted by the Company is higher than that predicted in 2019.

#### 4. Pretax discount rate

project	Pretax discount rate
2019 Goodwill impairment test	8.28%
2020 Goodwill impairment test	9.32%

When the Company conducts the goodwill impairment test in 2020 and 2019, the calculation method used for the pretax discount rate and the selection source of various factors for calculating the discount rate are consistent. The calculation of discount rate and the selection of various parameters are shown in the appendix.

In April 2016, ChemChina acquired 100% of the equity of KM Group through acquisition under different control. After the completion of the

acquisition, the goodwill generated at the consolidated statement level of CNCE Luxemburg was EUR 442 million (equivalent to RMB 3.460 billion). On December 31, 2020, the Company conducted an impairment test on the goodwill of CNCE Luxemburg in accordance with the requirements of accounting standards for business enterprises. According to the results of the impairment test, the recoverable amount of the asset group corresponding to the above goodwill exceeds its book value. Therefore, the goodwill of equipment Luxemburg has not been impaired on December 31, 2020.

If the future operation of KM Group deteriorates, there is the risk of goodwill impairment. The Company will pay close attention to the operation of CNCE Luxemburg, support and manage CNCE Luxemburg in terms of strategy and resources, and improve its profitability. However, the uncertainty of the future economic situation, including but not limited to the uncertainty of the impact of epidemic prevention and control on the economy, changes in macroeconomic situation and market conditions, changes in downstream customer demand, intensified industry competition and changes in industrial policies, all of them may have an impact on the operating performance of the Company, and then the Company has the risk of goodwill impairment, which has an adverse impact on the Company's current profits and losses. Investors should pay attention to the relevant risks.

**Reply of Zhong De Securities, CICC and China Securities:**

According to the macro-economic environment, industry environment, the actual business situation of the past years, future business planning and development strategy and other factors, the Company updates the forecast data of relevant revenue, the proportion of profit before tax, interest, depreciation and amortization in sales revenue, the pretax discount rate and the growth rate of sales revenue in the stable period in the annual goodwill impairment test, There are some differences in the parameters used in the goodwill impairment test between 2019 and 2020, which is reasonable.

**3) According to the announcement, from 2018 to 2020, CNCE Luxemburg achieved operating revenue of 10.45 billion yuan, 9.188 billion yuan and 8.121 billion yuan respectively, and realized net profit of 240 million yuan, -151 million yuan and -242 million yuan, all of which failed to fulfill the performance commitment, and the difference with the committed profit was 4.7131 million euro, 48.1604 million euro and 70.1897 million euro respectively. Please explain the main reasons for the higher decrease range of net profit than that of operating income and the big gap between the net profit and the committed profit by combining the main cost and accounting method of CNCE Luxemburg in recent three years.**

The Company's Reply:

The operating cost of CNCE Luxemburg includes material, labor and manufacturing expenses. The expenses mainly include employee

compensation, depreciation and amortization, product quality assurance, travel and other expenses. The composition of operating costs and various expenses is relatively stable, and the accounting method has not changed in the past three years.

Due to: 1) global economic growth slowed down, 2) the demand for CNCE Luxemburg's downstream such as cars and packaging industry was insufficient, and 3) the impact of the outbreak of COVID-19 in 2020 and other reasons, in 2019 and 2020, the income of CNCE Luxemburg decreased by 11.19% and 13.28% respectively. The main reasons for the decline rate of CNCE Luxemburg's net profit is higher than the operating income, and there is a big gap between the net profit and the promised profit are as follows:

1) Due to the decline of income, some costs and expenses (such as depreciation and amortization, labor costs, house rent, exchange gains and losses caused by exchange rate fluctuations, etc.) will not decline year on year with the decline of income, resulting in lower profit margin.

2) In order to cope with market changes and improve market share, KM Group has gradually entered the field of middle-end products and emerging markets, facing a wider range of competitors and fiercer price competition, resulting in a decline in the gross profit margin of products.

3) In 2020, the prices of raw materials and product accessories in the upstream industry were affected by the epidemic, showing an upward trend, compressing the profit margin of CNCE Luxemburg.

4) In order to expand the downstream business field and gradually enter the middle-end market from the high-end market, CNCE Luxemburg has increased its R & D efforts and made great efforts to develop new products and technologies outside the traditional downstream industries such as automobile and packaging, resulting in the rapid growth of R & D expenses.

To sum up, in 2019 and 2020, when the income of CNCE Luxemburg decreased by 11.19% and 13.28%, the cost of CNCE Luxemburg in 2019 and 2020 only decreased by 1.65% and 6.98%, which led to the decline range of net profit of CNCE Luxemburg higher than the operating income, and there was a big gap compared with the promised profit.

**PricewaterhouseCoopers Zhongtian notes:**

We have audited the financial statements of KraussMaffei Company in 2020 in accordance with the auditing standards for Chinese certified public accountants, with the purpose of expressing an overall opinion on the financial statements of KraussMaffei Company in 2020.

We have compared the above Company's response to the goodwill impairment test and the decline of net profit in 2020 with the audit evidence obtained in the audit of the Company's financial statements in 2020 and the

information and explanation obtained from the management, and found no inconsistency in all major aspects.

**Reply of Zhong De Securities, CICC and China Securities:**

Because of novel coronavirus pneumonia and other factors such as the global economic slowdown, Sino US trade friction, the income of CNCE Luxemburg in 2019 and 2020 decreased by 11.19% and 13.28% respectively. In order to cope with the adverse effects such as the decline of income, CNCE Luxemburg has taken measures such as adjusting the organizational structure, expanding new business areas, and increasing R & D investment, resulting in an increase in costs and expenses. At the same time, the provision for inventory depreciation, the rising prices of raw materials and product accessories in the upstream industry and other factors have led to a decline in gross profit margin. As a result of the above factors, the decline of net profit from 2018 to 2020 is higher than the operating revenue, and there is a big gap between the net profit and the promised profit.

**4) According to the announcement, the Company and CNCE Global planned to extend the performance commitment of 2020 to 2021. Please explain the main measures taken by the Company to realize the performance commitment and protect the interests of shareholders in combination with the Company's operating**

**performance, orders in hand and main business planning so far in 2021.**

The Company's Reply:

In 2021, the global economy and the rubber and plastic machinery industry gradually recovered. The Company's main downstream industries, including automobile related industries, showed a trend of improvement. New orders signed in the first quarter of 2021 and orders in hand at the end of the first quarter achieved good growth.

In the first quarter of 2021, the newly signed orders of CNCE Luxemburg reached 2.264 billion yuan, an increase of 24.59% over the first quarter of 2020; As of March 31, 2021, orders in hand of CNCE Luxemburg reached RMB 4.352 billion, an increase of 12.83% over December 31, 2020. From the current order volume, orders of CNCE Luxemburg in 2021 show an increasing trend compared with the same period last year. In the first quarter of 2021, CNCE Luxemburg realized a revenue of 1.623 billion yuan and a net profit of - 130 million yuan, mainly due to the low orders in hand at the end of 2020.

The main measures taken by the Company to realize the performance commitment and protect the interests of shareholders include:

(1) CNCE Luxembourg promises to achieve the net profit attributable to parent company after deducting non-recurring profit and loss of 57.72

million euros by 2021, and CNCE Global provides the compensation performance commitment.

The performance commitment of CNCE Luxembourg in 2020 is postponed to 2021. The Company proposes clear commitment targets for net profit indicators attributable to the parent company after deducting non-recurring profit and loss in 2021, and CNCE Global, the controlling shareholder, provides performance compensation commitment for the fulfillment of 2021 performance goals, and ensures that the commitment amount and compensation method are unchanged, It is conducive to CNCE Luxembourg to improve the speed of performance recovery, improve the quality of listed company in essence, and ensure the interests of shareholders..

Although the performance commitment target has not been achieved in 2018 and 2019, according to the relevant provisions of the *Performance Compensation Agreement*, the Company repurchases and cancels 14,506,511 shares and 148,232,570 shares held by CNCE Global in 2019 and 2020 respectively for the consideration of 1 yuan. As a central holding enterprise, CNCE Global has fulfilled the performance compensation obligation.

(2) Take multiple measures to improve the core competitiveness, achieve sustainable development and improve the quality of listed company.

In order to cope with the normalization of global epidemic situation and improve the operating performance in 2021, the Company has taken the following measures: 1) further focus on technological innovation and product optimization, and expand the business layout in emerging markets. Increase market share by introducing value based sales, clear market orientation, and customer-centric solutions. By increasing total sales, improving agency network, optimizing and expanding sales channels, new thinking organization, and improving financing solutions with partners, we can improve market coverage and bid winning rate, especially in the market field other than automobile. Expand the product portfolio, especially to promote PXA, GXA and other new products to the medium technology market, and expand the sales area of middle end technology products. 2) Implement the cost and efficiency plan to further reduce the number of personnel (especially in high cost areas) to reduce personnel expenses, including exhibition and travel expenses. 3) optimize the material cost and workflow efficiency, so that the Company's products can regain competitiveness. 4) Further optimize the internal organizational structure, organizational structure adjustment, and improve management efficiency, labor productivity, customer proximity, and innovation ability. 5) Focus on the new factory in Jiaxing, China, CNCE Luxemburg has established a modern and efficient production base in China, so as to further optimize the workflow and improve the operation efficiency. 6) To

achieve scale effect. The rapid growth of revenue will bring scale effect, so that the average cost of each product will be reduced, and then the profit will be increased. It is believed that through a series of effective measures, the operating performance in 2021 will be improved to a certain extent, so as to protect the practical interests of small and medium shareholders.

**Reply of Zhong De Securities, CICC and China Securities:**

With the gradual recovery of the global economy and the rubber and plastic machinery industry in 2021, the number of new orders of CNCE Luxemburg signed in the first quarter of 2021 has increased significantly compared with the same period of last year, and the number of orders in hand at the end of the first quarter of 2021 has also increased significantly compared with the end of 2020. In order to improve the operating performance of CNCE Luxemburg in 2021, the Company has formulated corresponding business plans to protect the practical interests of small and medium shareholders.

**II、 on production and operation**

**2. about injection molding business. The annual report shows that the injection molding business is the Company's largest main business, accounting for more than 50% of the main business revenue in each year. From 2018 to 2020, the injection molding business achieved operating revenue of 6.856 billion yuan, 5.871 billion yuan**

and 4.926 billion yuan respectively, and the gross profit rate was 27.59%, 25.47% and 22.17% respectively.

The company is inquired to:

1) explain the main reasons and rationality of the continuous decline of the Company's injection molding business revenue by combining the operation of comparable companies in the same industry, the development and relevant performance data of downstream automobile, packaging and other fields;

The Company's Reply:

1. Operation of comparable companies in injection molding business and related machinery industry from 2018 to 2020:

The Company select: 1) injection molding industry in A-share and Hong Kong listed companies; 2) the listed companies of machinery and equipment manufacturing industry in Germany, the operating conditions (operating income) of comparable companies are as follows:

Comparable companies	Main business and products	Unit	2018	2019	2020
Yizumi (300415.SZ)	The main business and products include injection molding machine, die casting machine, rubber machine, etc.	Hundred million yuan	20.15	21.14	27.18
Haitian International (1882. HK)	The main business is R & D, production and sales of injection molding machine and its integrated solutions.	Million yuan	10,851.2	9,809.7	11,800.1
Zhenxiong group * (0057. HK)	One of the largest injection molding machine manufacturers in the world.	HK\$ million	1,671.90	1,561.01	1,072.88
GEA Group Aktiengesellschaft	One of the world's largest suppliers of systems in the food, beverage and pharmaceutical sectors. The main products include spray	Million euro	4,828.21	4,879.70	4,635.00

	dryer, centrifuge, industrial homogenizer, heat treatment, freezing thickener and so on.				
KUKA Aktiengesellschaft	One of the world's leading suppliers of intelligent automation solutions. The main products include industrial robot, casting machine, rotary friction welding machine, magnetic arc welding machine, body manufacturing technology, painting workshop technology, CO2 laser robot, etc.	Million euro	3,242.10	3,192.60	2,573.50
Krones AG	The main business is to provide mechanical equipment and system solutions for filling packaging and beverage production industry. The main products include filling machine, capping machine, sorting machine, stretch blow molding machine, filtering equipment, agitator, etc.	Million euro	3,853.98	3,958.90	3,322.70
Dürr Aktiengesellschaft	The main products (services) include painting workshop and application technology, planning and consulting of process and workshop design, sealing and gluing technology, software and control system, automobile assembly, etc.	Million euro	3,869.82	3,921.50	3,324.80

\*The data in 2020 is the medium-term data.

\*\* (1) the comparable companies in overseas injection molding industry, such as Engel, Arburg, husky, etc., are all non-listed companies and cannot obtain their financial information from the open market; (2) The main businesses and products of the four German comparable listed companies listed in the table are obtained from the company's annual report or official website.

Compared with domestic comparable companies, in 2020, the domestic revenue of Zhenxiong group, Haitian International and Yizumi accounted for 80%, 70% and 81% respectively. In China, the novel coronavirus pneumonia epidemic situation was effectively controlled in 2020, and therefore had little impact on the domestic injection market. Compared with the German comparable companies, in the above table, the

revenue of the four German comparable companies in 2020 decreased by 5%, 19%, 16% and 15% respectively compared with that in 2019, and the revenue of the Company's injection molding business in 2020 decreased by 16% compared with that in 2019. Thus, affected by the epidemic, the revenue of comparable companies in Germany has declined as a general trend.

## 2. Development of major downstream industries:

(1) Automobile industry: The automobile industry is the main downstream customer in the injection molding field of KM Group. In 2019, the automobile industry was affected by the slowdown of global economic growth and trade friction, resulting in insufficient demand and limited export trade, thus affecting the investment decisions of automobile enterprises. In addition, the different understanding and judgment of the future development trend of traditional fuel vehicles and new energy vehicles also make the downstream automotive customers slow down their investment plans. In 2020, the novel coronavirus pneumonia epidemic was widespread in the automotive industry. The global industrial chain and supply chain were hit hard. Home office had a great impact on travel. In order to cope with the epidemic situation, automobile manufacturers have taken measures to stop production to varying degrees. Many well-known automobile enterprises (such as Daimler and BMW) have been exposed that they will take large-scale layoff plans to reduce expenses. BMW is

the first layoff of the company since the global economic crisis in 2008. According to the data of OICA, the number of new car registrations in 2020 decreased by 14% compared with that in 2019, and the most seriously affected by the epidemic were March and April, with a decrease of 38% and 37%. In Europe, the total number of newly registered passenger cars in 2020 is about a quarter lower than the previous year. In the United States, sales in the light vehicle market are down 15%. The massive downturn and the new crown pneumonia epidemic have seriously affected KM Group's orders from the auto industry.

(2) Packaging industry: The packaging industry is another major downstream customer of KM Group in the field of injection molding. In December 2018, three European decision-making bodies began to ban the use of a variety of disposable plastic products. The strict review of the use of plastics in packaging and the uncertainty brought by the new regulations on the operation of the industry have led to the low level of new investment in the packaging industry and the weak growth of orders in the packaging field. In 2020, the novel coronavirus pneumonia also had a serious impact on the packaging industry. Some companies were still reluctant to accept new investment. The growth of the packaging industry was limited, and the orders of some downstream packaging customers were growing feeble.

3. The main reasons and rationality of the continuous decline of the Company's injection molding business revenue are as follows:

The continuous decline of the Company's injection business income is mainly affected by downstream industries and markets: (1) in the downstream industry, the downstream industries of the Company's injection molding business are mainly concentrated in the automobile and packaging industries, which are greatly affected by the automobile and packaging industries, and the low investment fans in the automobile and packaging industries lead to the decrease of income; (2) In the market, the main market of the Company is mainly overseas, especially in countries with severe epidemic in Europe and North America. Therefore, the Company is greatly affected by the epidemic and leads to a decline in income.

**2) explain the main reasons for the continuous decline of the Company's gross profit margin by combining with the Company's core competitive advantages, market position, upstream and downstream bargaining power;**

The Company's Reply:

1. The core competitive advantages of the Company are as follows:

(1) High end product quality and provide deep customized service.

(2) Global marketing network and strong customer resources. KM group is a few companies in the rubber plastic machinery field, which have

three business sectors of injection molding, extrusion and reaction molding at the same time.

(3) Excellent technology and continuous innovation.

Despite the great changes in the external market, as a high-end rubber and plastic manufacturing enterprise with a history of more than 180 years, the core competitive advantage of KM group has not changed.

## 2. Market position of the Company:

The main products of the Company include injection molding, extrusion and reaction molding equipment. In the fields of injection molding, extrusion and reaction molding, the market position of the Company is different:

(1) Injection molding business: KM Group injection molding business mainly focuses on the automotive market and large hydraulic injection molding machines in European market. It has excellent product quality and good reputation in the high-end market and has medium-level profitability. Haitian International, a Chinese company, focuses on the low and medium-end injection molding machines suitable for a wide range of industries, and its profitability has always been better.

(2) Extrusion business: KM Group is a well-known participant in the industry and one of the leading machine manufacturers in the industry. KM Group focuses on European market in extrusion field. Currently,

European companies in the same industry are in the leading position in technology, application scope and overall profitability.

(3) Reaction molding business: KM Group benefits from its leading position in technology, strong molding and mold manufacturing capacity and good quality reputation. Compared with the closest competitors, KM group reaction molding business has better performance in China and other Asian markets, and is known as the industry technology leader.

In 2020, the market position of KM Group's main products has not changed.

3. The Company has a high degree of relevance with the upstream and downstream industries, and the development of upstream and downstream industries, supply and demand will have a great impact on the production and operation of the Company:

(1) Upstream bargaining capacity. Upstream industry of the company includes dozens of supporting industries such as mold and casting manufacturing. For upstream suppliers, in order to ensure the quality of high-end customized products, KM group requires that the main suppliers have certain qualifications, so the bargaining ability is relatively limited. In order to further reduce the procurement cost, KM group is improving its bargaining power through its own product design optimization, expanding the scope of qualified suppliers and increasing the purchasing

quantity of key suppliers. As a result, the sales price of new machines of KM group has decreased.

(2) Downstream bargaining capacity. Downstream industries of the company include many industries, such as automobile, packaging and medical treatment. For downstream customers, KM group is in a fierce competition, especially in emerging markets and mid and high-end product markets. The technical differences among market participants are gradually narrowing, especially in the fierce competition. KM group develops more competitive products through continuous improvement of technology progress to overcome pricing pressure. Therefore, the production cost of KM group new machine sales did not follow the sales price in the same proportion.

4. The main reasons for the continuous decline of gross profit rate in the past three years:

In summary, although the core competitiveness and market position of KM group have not changed in 2020, the changes in downstream industry demand and the impact of emergencies on the main income source areas of KM group have resulted in a continuous decline of gross profit rate in the past three years. The specific reasons are mainly reflected in the existing market and new market.

(1) Existing market: the traditional downstream industries of KM group's main subsidiaries are mainly automobile and packaging industries.

For the automotive industry, in recent years, the overall demand is insufficient. The key automotive industry customers have slowed down their investment plans. In 2020, COVID-19 puts further pressure on the production and operation of the major traditional automobile manufacturers in Europe and the United States. For the packaging industry, new investment in packaging industry is at a low level in view of the strict review of plastic used in packaging by European "no plastic order" and uncertainty brought by new regulations to the industry operation. In addition, in 2020, the main business markets such as Europe and North America are seriously affected by the epidemic. The Company takes measures such as stop production and production to cope with the epidemic, resulting in a decrease in revenue. While income decreases, some fixed costs and expenses are not reduced simultaneously, which leads to the decrease of gross profit rate.

(2) New market and new products: in order to cope with the increasingly fierce competition in the industry, KM group has started to develop medium and high-end products gradually from focusing on the high-end market. In contrast, the gross margin of medium and high-end products is low. In addition, in order to reduce the impact of fluctuations in major downstream industries, the Company is gradually reducing its dependence on the automotive and packaging industry and expanding the development in other fields, such as chemical industry, 3C, medical

treatment, new materials, etc. When entering the new field, KM group adopts the strategy of low price in exchange for market, thus the gross profit rate is lower.

**3) Explain whether there is a risk of further decline in the injection molding business by combining with the Company's research and judgment on the future market environment and the production and operation situation so far in 2021. If there is, please give full warning of the risk and explain whether there is a response plan.**

Company reply:

1. Future market research and judgment:

(1) In the long run, the global plastics and rubber machinery market still has great growth potential. From the downstream industry perspective, 1) the auto industry has seen a slowdown in the COVID-19 industry in 2020. The growth prospects of the industry show signs of recovery and further industry growth. The future lightweight and intelligent technology development trend will bring more application demand for high performance composite materials. 2) In the packaging industry, the growth of consumers' demand for high-quality food and daily necessities packaging will still bring new growth opportunities. According to a recent study by Smithers, a consultancy, the demand for plastic packaging in emerging markets will grow at a rate higher than the global average in the

five years to 2024. With the epidemic under control, the packaging industry will face strong growth in the next few years due to the growth of global population and the increase of global wealth, according to Euromonitor. According to a recent study by Smithers (Akron, Ohio), a consulting firm, the demand for plastic packaging in emerging markets will grow faster than the global average in the five years to 2024. The company predicts that by 2024, global plastic packaging consumption will grow at a compound annual growth rate (CAGR) of 2.8%, reaching US \$1.05 trillion (936 billion euros), especially in the developing markets of Africa, Asia, Eastern Europe and the Middle East; 3) In terms of chemistry and medicine, VCI forecasts that the output and sales of chemical pharmaceutical industry will increase in 2021; 4) In addition, with the development trend of environmental protection, interconnection and intelligence, home appliances and consumer electronics industries will have high growth potential in the future.

(2) In the future, the company will change its focus from product to customer. As a real solution provider for customers, the company achieves the best combination of injection molding, automation and digital products to provide customers with clear added value, and further improves the performance, efficiency, quality and availability of its machines. This will enable the company to gain additional market share, especially in the Chinese market, where business growth is more obvious. Due to the

market recovery in Europe, Middle East and Africa, North America and greater China, the company has achieved a good performance in new orders in the first quarter of 2021, and is expected to continue to have a good performance in order volume in the next few quarters of 2021.

2. The main production and operation of the Company's injection molding business in the first quarter of 2021 are as follows:

	The first quarter of 2021 (in 1000 euros)	The first quarter of 2020 (in 1000 euros)	Difference (%)
income	90,914.71	126,137.39	-27.92%
New order	153,650.27	87,209.92	76.18%
Orders in hand	272,357.42	252,226.87	7.98%

Due to the influence of COVID-19, the company has fewer orders at the end of 2020, while the injection molding equipment needs a certain period from production to delivery, resulting in a decrease in the income of the injection business in the first quarter of 2021 compared with the same period in 2020. However, from the perspective of new orders and orders in hand, the first quarter of 2021 has a significant increase compared with the same period of 2020.

**3. about quarterly fluctuations in performance. According to the annual report, from the first quarter to the fourth quarter of 2020, the Company achieved operating income of 2.187 billion yuan, 2.067 billion yuan, 2.461 billion yuan and 3.102 billion yuan respectively, net profit attributable to the parent company of -139 million yuan, -86 million yuan, 26 million yuan and -32 million yuan, and net cash**

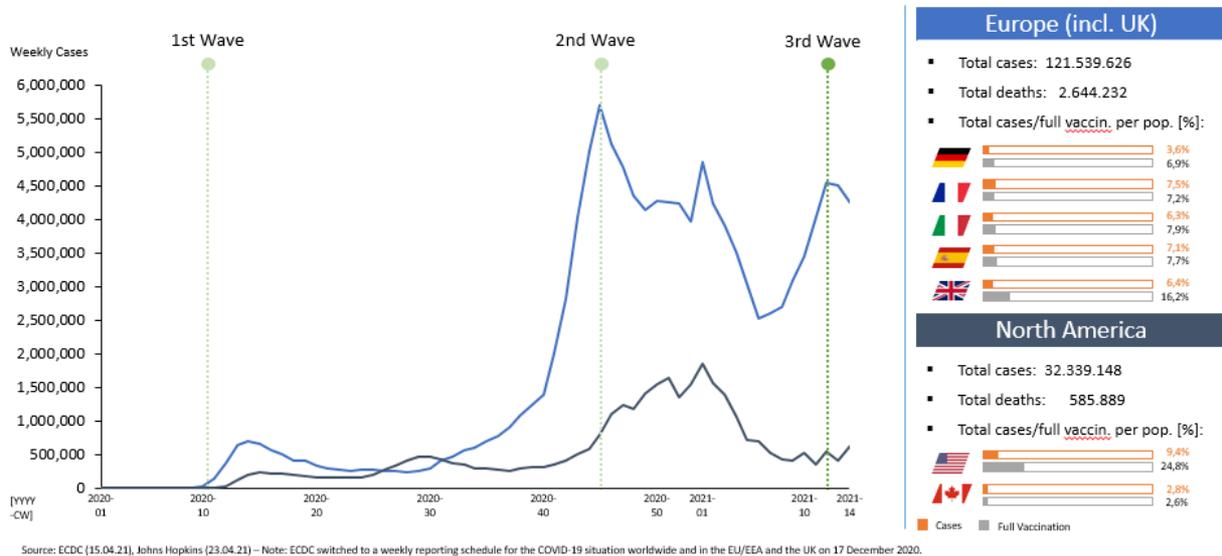
flow from operating activities of -222 million yuan, -23 million yuan, 86 million yuan and 305 million yuan respectively.

The Company is inquired to:

1) Combined with the fluctuation of epidemic situation in Europe and the United States and the geographical distribution of the Company's revenue, explain the main reasons for the Company's large growth in operating revenue in the fourth quarter;

The Company's Reply:

1. The fluctuations of the epidemic situation in Europe and the United States are as follows:



Data Sources: ECDC (European Centre for Disease Prevention and Control), Johns Hopkins, Statistics as of April 23, 2021

As can be seen from the above graph of the fluctuation of COVID-19 in Europe and the United States, since the outbreak of COVID-19 in March 2020, the COVID-19 in Europe and the United States rebounded for a second time in the fourth quarter of 2020, with repeated impacts.

2. The geographic distribution of the company's revenue. The revenue structure of Equipment Luxembourg is relatively stable. The most important business markets are Europe, North America and Asia (mainly China). In 2019 and 2020, the proportion of these regions in the total revenue of Equipment Luxembourg is shown in the following table:

<b>Region</b>	<b>Proportion of revenue in 2019</b>	<b>Proportion of revenue in 2020</b>
Europe	51.47%	51.68%
North America	25.10%	25.33%
Asia	18.08%	19.19%
<b>Total</b>	<b>94.65%</b>	<b>96.20%</b>

In terms of quarterly data, in each quarter of 2020, Equip Luxembourg's revenue from Europe, North America and Asia (mainly China) accounted for more than 95% of the total revenue, as shown in the table below:

<b>Region</b>	<b>Q1 of 2020</b>	<b>Q2 of 2020</b>	<b>Q3 of 2020</b>	<b>Q4 of 2020</b>
Europe	57.17%	54.24%	52.53%	44.46%
North America	26.45%	23.14%	25.09%	26.11%
Asia	12.28%	18.50%	18.23%	26.05%
<b>Total</b>	<b>95.91%</b>	<b>95.87%</b>	<b>95.85%</b>	<b>96.61%</b>

3. The main reason for the company's fourth quarter operating income growth was: in 2020, COVID-19 began to affect China's regional business since February. The first outbreak of the epidemic in Europe and the United States began in March 2020, and the second rebound in the fourth quarter, which has greatly affected the production and sales of European and North American production enterprises, and the performance of the company has declined considerably. Affected by the shutdown caused by the epidemic, the delivery of some orders of the company was delayed from the first half of the year to the second half and even the fourth quarter. In addition, the company's main products are injection molding equipment, extrusion equipment, reaction processing technology equipment, electrochemical equipment, etc., with a long production cycle, usually in 6-9 months or even longer. In the fourth quarter, despite the adverse impact of the epidemic rebound, companies made more compact arrangements for production delivery and product installation and commissioning, so as to meet customer needs and complete more orders in hand. As a result of the above reasons, the company's operating revenue has increased significantly in the fourth quarter. As mentioned in the reply to question 3 (2) below, the seasonal fluctuation of the company's operating income is basically consistent with that of comparable companies in the same industry.

**2) Combined with the industry characteristics, product category, sales mode, revenue recognition policy and credit policy of the Company, explain the main reasons why the net cash flow of operating activities of the Company varies greatly in each quarter and does not match the change trend of net profit attributable to the parent company. The annual audit accountant should express their opinions on the above questions.**

The Company's Reply:

The Company's main financial data for each quarter in 2020 are as follows:

Unit: RMB

	Year 2020			
	Q1	Q2	Q3	Q4
Operating income	2,186,960,811.48	2,066,958,510.09	2,460,763,628.46	3,101,709,629.93
Net profit attributable to parent company	(138,562,599.24)	(86,268,769.42)	26,531,121.94	(31,689,647.94)
Net cash flows from operating activities	(222,436,321.89)	(22,571,369.91)	86,102,801.97	305,657,536.40

As mentioned in the reply to question 3 (1) above, the company's main products, such as injection molding equipment, extrusion equipment, reaction processing technology equipment, electrochemical equipment and so on, have a long lead time, and most of the products are manufactured by order form. In the second half of the year, especially in the last quarter, the delivery and acceptance of goods are relatively

concentrated, so the company's operating revenue will turn up in the second half of the year, especially in the fourth quarter. When a customer obtains control over the relevant goods or services, the company shall recognize the revenue according to the amount of consideration he is expected to be entitled to receive; The performance obligation performed at a certain time point shall be delivered to the agreed place of delivery according to the provisions of the agreement and contract, and the customer shall confirm the transfer of control of the goods after receiving, and recognize the income. If the equipment needs to be installed on the customer's site and the installation is essential for the normal operation of the equipment, the revenue can only be recognized when the equipment is delivered to the customer and has been installed on the customer's site; For the performance obligations performed in a certain period of time, revenue is recognized in a certain period of time according to the performance progress of goods or services. The performance progress is determined according to the proportion of the cost incurred in the total estimated cost.

As the company mainly signs new orders and purchases raw materials in the first half of the year, the total cash outflow from business activities such as purchasing goods and receiving labor services in the first half of 2020 is higher than that of the second half (RMB 5.498 billion in the first half of 2020 and RMB 4.741 billion in the second half of 2020); Combined with the characteristics of the company's order production and

revenue recognition policies, the operating income in the second half of the year is particularly late in the fourth quarter, and the company calls for receivables in the second half of the year to increase the return of funds, so the net cash flow of the second half of the year is significantly better than that of the first half of the year (net outflow of 245million yuan in the first half of 2020 and net inflow of 392million yuan in the second half of 2020).

As shown in the following table, the seasonal fluctuation trend of the company's operating income and net cash flow of operating activities is consistent with that of comparable companies in the same industry:

Unit: RMB 1,000.00

	Year 2020			
	Q1	Q2	Q3	Q4
Company				
Operating income	2,186,961	2,066,959	2,460,764	3,101,710
Net cash flow from operating activities	(222,436)	(22,571)	86,103	305,658
Yizumi				
Operating income	352,960	716,976	808,153	840,115
Net cash flow from operating activities	(8,074)	100,808	190,612	259,188

Unit: RMB 1,000

Haitian International (*)	Year 2020	
	First half	Second half
Operating income	5,015,675	6,784,377
Net cash flow from operating activities	1,224,703	2,053,466
Chen Hsong Group (**)	Year 2020	
	First half	Second half
Operating income	942,762.87	
Net cash flow from operating activities	124,572.62	
Dürr Aktiengesellschaft(***)	Year 2020	
	First half	Second half

Operating income	12,858,734.57	13,822,937.91
Net cash flow from operating activities	843,547.66	881,482.27
	Year 2020	
KUKA Aktiengesellschaft(***)	First half	Second half
Operating income	9,304,816.80	11,347,520.70
Net cash flow from operating activities	-672,704.50	1,293,839.50
	Year 2020	
Krones AG(***)	First half	Second half
Operating income	13,522,554.60	13,142,457.98
Net cash flow from operating activities	-103,493.00	2,685,673.18
	Year 2020	
GEA Group Aktiengesellschaft (***)	First half	Second half
Operating income	17,978,892	19,217,416
Net cash flow from operating activities	1,746,229	3,993,395

\*: Haitian International did not release quarterly data, so it listed its semi annual data;

\*\* : Chen Hsong Group's fiscal year ends on March 31, and its 2020 annual report has not yet been announced, so the data for the second half of the year cannot be unreported;

\*\*\*: According to the publicly available data, only the first half and second half of the data comparison between Germany and the machinery and equipment industry companies.

The net loss of the company in 2020, the third quarter income is significantly lower than the fourth quarter, the realization of net profit attributable to the parent is mainly due to the company received one-time government subsidies in the third quarter. The operating income, net profit and net operating cash flow of the company are inconsistent. It is mainly due to the emergencies in the business process and the flexible matching between the settlement and the business plan. The above indicators will be affected by different factors, which may present a mismatch.

### **PricewaterhouseCoopers Zhongtian notes :**

We audited KraussMaffei's 2020 financial statements in accordance with the Chinese Certified Public Accountants' Auditing Standards, with

the aim of expressing an opinion on KraussMaffei's 2020 financial statements as a whole.

We compare the above company's response to the quarterly fluctuation of operating income and net cash flow of operating activities in 2020 with the relevant information obtained in the audit of the company's financial statements for 2020 and the explanation obtained from management. No inconsistencies in all major aspects are found.

### **III. On financial data and accounting treatment**

**4. about receivables. According to the annual report, the total book value of accounts receivables, notes receivables and accounts receivables for financing of the company at the end of this year was 2.479 billion yuan, with a year-on-year growth of 0.53%, and the operating revenue of the Company decreased by 7.18%. At the end of the year, the Company's bad debt provision for accounts receivable was 351 million yuan, increased 30.97% over the beginning of the year, of which 150 million yuan was withdrawn as single items, increased 68.51% over the beginning of the year.**

**The Company is inquired to:**

**1) Combined with the Company's business model, bargaining power, credit policy, customer composition and comparable companies, explain the main reasons and rationality of the slight**

**increase of receivables in the current period when the operating revenue was declining;**

The Company's Reply:

The change trend of operating revenue and receivables (including accounts receivable, notes receivable and financing receivables) of the company and its two major subsidiaries in 2020 and 2019 is as follows:

Company (RMB 100 million)	Operating income				Accounts receivable			
	Year 2020	Year 2019	Changes in the amount	Changes in the proportion (%)	Year 2020	Year 2019	Changes in the amount	Changes in the proportion (%)
Merger of Companies	98.16	105.76	-7.60	-7.18	24.79	24.65	0.14	0.53
Including: Tianhua Institute	14.81	12.13	2.68	22.13	10.33	8.97	1.36	15.15
CNCE Luxemburg	81.22	91.88	-10.67	-11.61	13.22	14.78	-1.56	-10.55

The receivables of the two subsidiaries are in the same direction as the operating income. The growth rate of the receivables of Tianhua Institute is lower than that of the operating income, while the decline rate of receivables in CNCE Luxemburg is slightly lower than that of the operating income. However, the increase of Tianhua Institute's operating income is far less than that of CNCE Luxemburg. However, the amount of the change in receivables caused by the change of operating income of the two subsidiaries is basically offset, which leads to the decrease of the consolidated income of the company, while the balance of receivables increases slightly with that of the end of 2019.

The company's main products include injection molding equipment, extrusion equipment, reaction processing technology equipment, electrochemical equipment, etc. the delivery cycle is long, and the products are mostly manufactured by order. In the second half of the year, especially in the last quarter, the delivery acceptance of goods is relatively concentrated. Our customers include automotive, construction, packaging and chemical industries, as well as consumer goods, electrical, electronic, medical and pharmaceutical industries and white goods. The competition among the market participants where the company's products are located is fiercer, especially for some CNCE Luxemburg products, the technical differences between the market participants are small. In order to cope with the above pricing pressure, the value based pricing model is adopted.。

In order to deal with the risk of high balance of accounts receivable, the company has designated credit policies according to the business location and different customer groups, strengthened the investigation of customer credit, implemented the responsibility of internal collection, and strengthened the collection of accounts receivable for the due accounts receivable. Considering the differences of credit risk characteristics, the accounts receivable of CNCE Luxemburg and other companies except CNCE Luxemburg are divided into different combinations to calculate the expected credit loss. The proportion of provision in 2020 is as follows:

CNCE Luxemburg

Aging	Provision ratio (%)
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Not yet overdue	0.53
1-30 days	1.62
31-90 days	2.99
91-180 days	6.32
>180 days	11.36

Other companies

Aging	Provision ratio (%)
Within 1 year (including 1 year)	5.76
1 to 2 years	12.74
2 to 3 years	25.05
3 to 4 years	46.23
4 to 5 years	57.85
More than 5 years	90.45

We selected comparable companies in the same industry as YIZUMI (SZ.300415), Haitian International (HK.01882) and Sumitomo Heavy Industries (T.6302). We have checked the financial information in the annual reports of these listed companies and found that the details of the operating income and receivables balance of these companies are as follows:

Company	Operating income				Accounts receivable			
	Year 2020	Year 2019	Changes in the amount	Changes in the proportion (%)	Year 2020	Year 2019	Changes in the amount	Changes in the proportion (%)
YIZUMI (RMB 100 million)	27.18	21.14	6.04	28.59	5.90	4.97	0.93	18.63
Haitian International (RMB 100 million)	118.00	98.10	19.90	20.29	31.36	25.66	5.69	22.18
Sumitomo Heavy Industries (JPY billion)	5,999	6,257	-258	-4.13	2,666	2,635	31.32	1.19

As can be seen from the above table, the increase rate of YIZUMI's business income is 9.96% higher than that of the balance of receivables, and the increase rate of Haitian International's business income is 1.89% lower than that of the balance of receivables. Sumitomo heavy industry's business income in the current period is declining, and the receivables increase slightly.

**2) Make supplementary disclosure on the specific situation of accounts receivable which bad debt provision was withdrawn as single items, including but not limited to the formation reason, formation time, corresponding business and overdue time. Combined with the judgment standard of the Company's bad debt provision for single items, explain the reasons for the large increase of the bad debt provision for single items in this year and whether there is insufficient provision for bad debts in the previous period. The annual audit accountant should express their opinions on question 2).**

The Company's Reply:

The company has formulated and strictly implemented the management system of accounts receivable. In terms of credit management, the company attaches great importance to customer credit investigation, pays close attention to customer operation and sales, and strictly controls credit risk. According to the new financial instrument standards, the company measures the loss provision for accounts receivable according to the expected credit loss of the

whole duration, regardless of whether there is a significant financing component. In view of the accounts receivable that customers are in poor operating condition and cannot be recovered for a long time, the company considers the reasonable and reliable information about past events, current situation and future economic situation, and takes the risk of default as the weight to calculate the probability weighted amount of the present value of the difference between the cash flow receivable under the contract and the cash flow expected to be received, confirm the expected credit loss. When the information of expected credit loss can't be evaluated by a single account receivable at a reasonable cost, the company divides the accounts receivable into several combinations according to the characteristics of credit risk, and calculates the expected credit loss on the basis of the combination. For the accounts receivable divided into portfolio, the company refers to the historical credit loss experience, combines the current situation and the forecast of the future economic situation, compiles the accounts receivable aging table, the overdue days aging table and the comparison table with the expected credit loss rate of the whole duration, and calculates the expected credit loss.

The detailed comparison of accounts receivable with single provision for bad debts in this year is as follows:

Subsidiary	Balance at the end of 2020		Balance at the end of 2019		Changes in provision for bad debts
	Book balance	Bad debt provision	Book balance	Bad debt provision	
Tinahua Institute	63,695,498.48	63,695,498.48	13,367,002.16	13,367,002.16	50,328,496.32

CNCE Luxemburg	87,031,187.27	86,356,310.69	79,557,009.94	75,679,909.60	10,676,401.09
Total	150,726,685.75	150,051,809.17	92,924,012.10	89,046,911.76	61,004,897.41

Unit: RMB

The main reason for the large increase of bad debt provision by single item in this year is the increase of bad debt provision by Tianhua Institute.

The main increase of accounts receivable with single provision for bad debts in 2020 is as follows:

Name of debtor	Book balance 2020	Bad debt provision 2020	Aging	Accumulated proportion of withdrawal
Hanbang (Jiangyin) Petrochemical Co., Ltd(a)	28,401,746.99 yuan	28,401,746.99 yuan	Within 1 year, 48,413.62 yuan, 17,353,333.37 yuan in 1-2 years, and 11,000,000.00 yuan over 5 years	100%
Zhongshi energy group Inner Mongolia Zhongshi Energy Co., Ltd(b)	22,732,000.00 yuan	22,732,000.00 yuan	More than 5 years	100%
CNCE Luxemburg customer 1(c)	748,820 euro	748,820 euro	More than 2 years	100%

(a) Hanbang (Jiangyin) Petrochemical Co., Ltd. is the customer of Tianhua Institute. In the past years, the sales contract mainly focused on the drying equipment of Tianhua Institute. Hanbang (Jiangyin) Petrochemical Co., Ltd. still has new sales transactions in 2019, and has received payment of 951000 yuan, which is an active customer. As of December 31, 2019, there is no significant difference between the credit risk characteristics of other receivables, and the expected credit loss is accrued according to the aging of the portfolio. According to the public information, in December 2020,

Hanbang (Jiangyin) Petrochemical Co., Ltd. was applied for bankruptcy reorganization by creditors for the first time. Therefore, the company believes that the credit risk of the accounts receivable will be significantly different in 2020, and the credit impairment loss will be evaluated as a single withdrawal item on December 31, 2020.

(b) Zhongshi energy group Inner Mongolia Zhongshi Energy Co., Ltd is the customer of Tianhua Institute, and the sales contract in the past years mainly focused on the drying equipment of Tianhua Institute. The failure to pay the arrears is mainly related to the stagnation of related project construction of Zhongshi energy group Inner Mongolia Zhongshi Energy Co., Ltd in the past few years, including 2019, the company has maintained communication with the actual controller and general manager of the customer, and discussed the project adjustment plan and repayment plan. There is no dispute. On December 31, 2019, there is no significant difference in the credit risk characteristics of other receivables. The expected credit loss is accrued according to the aging of the portfolio. The aging of the portfolio on December 31, 2019 is 4-5 years, and the accrual ratio is 51.23%, which is consistent with the accrual ratio according to the aging range disclosed in the annual report. According to the public information, in November 2020, Inner Mongolia Zhongshi Energy Co., Ltd. was listed by the court as restricting high consumption for the first time. Therefore, the company considers that the credit risk of the accounts receivable is significantly different in 2020, and evaluates

the credit impairment loss as a single withdrawal item on December 31, 2020.

(c) The debt of equipment Luxemburg customer 1 is the balance of 20% of the extrusion production line sold under the contract signed in 2015. The revenue from the sales of the production line is recognized by the percentage of completion method during the period up to the end of 2018, and 80% of the payment from the customer has been received. In 2019, both sides maintained communication on technical issues of equipment, and equipment Luxemburg provided after-sales technical support according to the communication, but the customer did not refuse to pay the balance. As of December 31, 2019, there is no significant difference between the credit risk characteristics of other receivables, and the expected credit loss is accrued according to the aging of the portfolio. In 2020, customers explicitly refused to pay the balance due to technical defects in the production line. Therefore, the company thinks that the credit risk of the accounts receivable is significantly different in 2020, and evaluates the credit impairment loss as a single item on December 31, 2020.

During the reporting period, the main accounts receivable items listed in the above table with single provision for bad debts have no significant difference from the credit risk characteristics of other accounts receivable on December 31, 2019. Therefore, the provision for bad debts is withdrawn according to the aging in the corresponding combination, and there is no insufficient provision for bad debts in the previous period.

**PricewaterhouseCoopers Zhongtian notes :**

We have audited the financial statements of KraussMaffei in 2020 in accordance with the auditing standards for Chinese certified public accountants, aiming to express an overall opinion on the financial statements of KraussMaffei in 2020.

We have compared the above company's reply to the single provision for bad debts of accounts receivable at the end of 2020 with the audit evidence obtained in the audit of the company's financial statements in 2020 and the information and explanation obtained from the management, and found no inconsistency in all major aspects.

**5. about the inventory depreciation provisions. According to the annual report, this year, the Company made 57.2491 million yuan for the inventory depreciation provisions this year, increased 79.83% over the same period last year, and the book balance of inventory at the end of the year decreased by 13.05% compared with that at the beginning of the year. In this year, the Company made 17.8142 million yuan provisions for raw materials and 42.4823 million yuan provisions for products in process, but no provision for commodity stocks.**

**The company is inquired to:**

**1) Combined with the process and steps of inventory depreciation provisions, explain the main reasons for the increase of the Company's inventory depreciation provisions in the current year when the**

**inventory balance declining, and whether there is insufficient provisions for inventory depreciation in the previous period;**

The Company's Reply:

The process and steps of the company's inventory falling price reserves: on the balance sheet date, the company carries out a comprehensive inventory of the inventory, and the inventory falling price reserves are accrued according to the difference between the inventory cost and its net realizable value. The net realizable value is determined by the estimated selling price of inventory minus the estimated cost to completion, estimated selling expenses and relevant taxes in daily activities. Details of the company's inventory and depreciation reserves are as follows:

Unit: RMB 10,000

Corporate name	December 31, 2020			December 31, 2019		
	Book balance	Inventory depreciation reserves	book value	Book balance	Inventory depreciation reserves	book value
CNCE Luxemburg	228,073.77	35,692.19	192,381.58	283,140.71	29,998.21	253,142.50
Others	30,432.71	2,706.75	27,725.96	62,530.45	2,556.55	59,973.91
Total	258,506.48	38,398.94	220,107.54	345,671.16	32,554.76	313,116.41

In 2020, the net amount of provision for inventory depreciation of CNCE Luxemburg and other companies (provision in this year less reversal in this year) is about 55.75 million yuan and 1.5 million yuan respectively. The increase of inventory depreciation loss mainly comes from CNCE Luxemburg.

Details of all kinds of CNCE Luxemburg inventories and their depreciation reserves are as follows:

Unit: RMB 10,000.00

Inventory type	December 31, 2020			December 31, 2019			Provision for change amount
	Original book value	Reserves for inventory depreciation	Proportion of provision for depreciation	Original book value	Reserves for inventory depreciation	Proportion of provision for depreciation	
Raw material	46,701.97	12,469.04	27%	52,283.71	10,423.69	20%	2,045.35
Products in process	135,584.33	6,194.33	5%	64,407.35	2,052.89	1%	4,141.44
Stock goods	45,787.47	17,028.82	37%	50,808.68	17,521.63	34%	-492.81
Construction contract	-	-	-	15,640.97	-	-	-
Total	228,073.77	35,692.19	16%	83,140.71	29,998.21	11%	5,693.98

\* In 2020, the construction contract in the original inventory account has been reclassified to the contract asset account.

When evaluating the falling price loss of raw materials, products in process and goods in stock, various factors will be taken into account, including inventory turnover, damage and obsolescence, estimated selling price, etc.

In 2020, the increase in the sale of CNCE Luxemburg raw materials and the decline in product inventories was mainly due to the impact of the outbreak of COVID-19: (1) the changes in the sales orders of CNCE Luxemburg increased, such as orders postponed, modification clauses, etc. in addition, the transport mode changes and transportation costs increased, the delivery time was uncertain, and the corresponding storage costs increased. The cost increases due to the fact that KM group personnel cannot travel across regions instead of employing local third-party companies to provide some services. These factors make the estimated net realizable value of corresponding products lower than the book cost, so the provision for falling price of products increases. (2) The service orders for

equipment sales and after-sales maintenance of CNCE Luxemburg have declined to some extent, which leads to the decrease of consumption of raw materials and products in progress due to the decrease of orders, the inventory turnover slows down, and the amount of provision for inventory falling price increases accordingly. Therefore, in 2020, with the decline of inventory balance at the end of the year, the loss of inventory falling price will increase.

The policy and calculation method of inventory depreciation reserves in 2020 and 2019 are consistent. The increase of current depreciation reserves in 2020 is calculated according to the objective situation of 2020, and there is no insufficient inventory depreciation reserves in the early stage.

**2) Combined with the specific composition of inventory, stock age and the Company's production and sales mode, explain the reasons and rationality of no provisions for commodity stocks in the case of provisions for raw materials and products in progress in the current period. The annual audit accountant should express their opinions on questions.**

The Company's Reply:

Raw materials for CNCE Luxemburg mainly include steel, metal plate and purchased components; Products in process mainly include self-made components, orders in process, etc.; the main goods in stock are equipment,

etc. CNCE Luxemburg mostly adopts order production. On the balance sheet date, equipment Luxemburg determines its net realizable value according to the contract price of raw materials, products in process and inventory goods minus the estimated completion cost, sales expenses and relevant taxes, and accrues inventory depreciation reserves according to the difference between the net variable value and the book value. As mentioned in the reply to question 5.1, various factors will be taken into account in the evaluation of inventory depreciation loss, including 1) inventory turnover, that is, the expected turnover time obtained by considering inventory quantity / monthly average consumption in the past 18 months; 2) Damage and obsolescence; And 3) estimated selling price.

In 2020, due to the epidemic, CNCE Luxemburg reduce procurement and consumption to cope with the decline in orders and revenues. According to the expected turnover time, the proportion of inventories over 120 months in 2020 has risen from 31% in 2019 to 38%, and the proportion of 0-24 months has decreased from 59% in 2019 to 52%. As the proportion of inventory with long expected turnover time increases, turnover becomes worse and the impairment increases accordingly. In addition, additional loss contract due to customer change of sales order results in provision for inventory falling price. The inventory goods are mainly those which are already in the available state. CNCE Luxemburg assessed the net realizable value of inventory goods at the end of the year, and found no new

impairment and no additional provision for falling price was required. As shown in the table in the reply to question 5 (1), the balance of depreciation provision for inventory goods in CNCE Luxemburg on December 31st, 2020 and December 31, 2019 is 170,288,200 yuan and 175,216,300 yuan respectively, with the accrual ratio of 37% and 34% respectively. After being assessed, the provision for falling price for the goods in the warehouse is fully withdrawn, and no additional provision for falling price is required in 2020.

**PricewaterhouseCoopers Zhongtian notes :**

We have audited the financial statements of KraussMaffei in 2020 in accordance with the Auditing Standards for Certified Public Accountants of China in order to express our opinions on the overall financial statements of KraussMaffei in 2020.

We compared the Company's response to the loss of inventory depreciation for the year 2020 with the audit evidence obtained during our audit of the Company's financial statements for the year 2020 and the information and interpretation obtained from management and found no inconsistencies in all material respects.

**6. about long-term accounts payable. According to the annual report, the book value of the Company's long-term accounts payable at the end of 2019 and 2020 were 566 million yuan and 1,406 million yuan**

respectively, with a year-on-year growth of 2,834.82% and 148.59% respectively. At the end of the reporting period, the Company's long-term accounts payable were mainly credit loans to related party China Chemical Equipment (Hong Kong) Co., Ltd., with a book value of RMB 1,389 million yuan at the end of the reporting period, and the interest rate range of loans was 1.110% to 4.105%.

**The company is inquired to:**

**1) Make supplementary disclosure on the background, amount, term, interest rate, main purpose and guarantee situation of the loans payable to related parties;**

The Company's Reply:

On April 26, 2016, CNCE Luxemburg signed a syndicated financing agreement, which agreed that CNCE Luxemburg could borrow 50 million euros of long-term loans, obtain 50 million euros of revolving credit line and 75 million euros of guarantee line. The financing is secured by CNCE Luxemburg of some of the subsidiaries. According to the financing agreement, it is necessary to provide information to the syndicate on a regular basis (quarterly), including financial indicators such as interest multiple (the multiple of EBITDA to net financial expenditure) and leverage factor (the multiple of net liabilities to EBITDA), etc. in addition, it is also required to set the related payment to the parent company, asset disposal, bank factoring, acquisition and investment, etc. Restrictive clauses such as financial leasing

and external guarantee. If the restrictive clause is triggered, the syndicate may ask for an increase in interest rates, suspension of further use of credit lines, etc. When calculating the relevant leverage coefficient, shareholders' borrowing is not an interest bearing liability to participate in the relevant calculation. Therefore, when estimating the financial indicators such as leverage coefficient at the end of each quarter, we usually consider optimizing the relevant leverage index in the form of shareholders' borrowing. The related party loan of the company is the shareholder credit loan of CNCE group (Hong Kong) Co., Limited (hereinafter referred to as "CNCE Group (HK)") with the amount of 70 million euro and 100 million euro respectively.

The main information of related party loans is as follows:

Loan amount	Term of loan	Interest rate	Guarantee
70 million euros	September 27, 2019 to October 7, 2022	Fixed rate 1.110%	No
100 million euros	29 June 2020 to 7 October 2022	Fixed rate 4.105%	No

**2) Explain whether the interest rate of loans payable to related parties in the current year has increased compared with that in the previous year. If so, please state the reasons and rationality for the increase of interest rate.**

The reason why the loan interest rate of shareholders in 2020 is higher than that in 2019 is due to the different financing channels for CNCE Group (HK) twice (direct overseas Euro financing in 2019, the interest rate is lower; In 2020, it will finance for domestic RMB (with higher interest rate), which

will lead to the rise of financing cost. Therefore, the interest rate of loans to CNCE Luxemburg will rise accordingly. CNCE Luxemburg was affected by the outbreak of COVID-19 in Europe and the United States at the end of the first quarter of 2020. The production base was shut down to stop production to cope with the epidemic, resulting in a decline in revenues and profits and insufficient liquidity. After preliminary estimation, it needs to add 100 million euro of shareholder loans before the end of the second quarter of 2020 to avoid triggering the default clause in the syndicated financing agreement. Due to the urgent financing demand, CNCE Group (HK) is unable to complete the overseas direct financing in a short time. Therefore, emergency loans are provided to CNCE Group (HK) through domestic financing channels, resulting in the increase of CNCE Group (HK)'s own financing cost. The interest rates of the above two loans are lower than the loan interest rates of the same period stipulated by People's Bank of China.

Appendix: The specific parameters and calculation process are as follows:

items	remarks	Annual goodwill impairment test in 2020	Annual goodwill impairment test in 2019
Deleveraging beta coefficient	A	0.84	0.81
Leverage ratio	B	7.50%	5.21%
tax rate	C	32%	32%
<b>Equity cost calculation(iv)</b>			
Risk free interest rate	D	-0.20%	0.20%
Market risk premium	E	7.50%	7.50%
Special risk premium	F	1%	0%
Leveraged cost of equity	$G = D + A * (1 + (1 - C) * B) * E + F$	7.40%	6.51%
<b>Debt cost calculation(iii)</b>			
Pretax cost of debt	H	1.40%	1.40%
After tax cost of debt	$I = H * (1 - C)$	0.95%	0.95%
<b>WACC</b>			
Equity ratio (ii)	J	93%	95.05%
Debt ratio (i)	K	7%	4.95%
<b>After tax discount rate</b>	$WACC = G * J + I * K$	<b>6.90%</b>	<b>6.20%</b>
<b>Pretax discount rate</b>		<b>9.32%</b>	<b>8.28%</b>

#### i. Debt ratio

Debt ratio is the ratio of debt capital to total capital, which is determined by referring to the median of actual capital structure of comparable listed companies in the same industry in the past five years.

#### ii. Equity ratio

Equity ratio is the proportion of equity capital to total capital, which is determined by referring to the median of actual capital structure of comparable listed companies in the same industry in the past five years.

### iii. Cost of debt

The pretax debt cost reflects the borrowing cost of bonds of different credit grades (that is, the required rate of return of bond investors for bonds of different credit grades). It refers to the standard & Poor's credit rating of bonds issued by comparable listed companies in the same industry and the corresponding bond yield curve.

$$\text{Cost of debt after tax} = \text{cost of debt before tax} * (1 - \text{tax rate})$$

### iv. Cost of equity

The cost of equity is calculated according to the capital asset pricing model (CAPM)

$$\text{Cost of equity} = \text{risk free interest rate (Rf)} + \text{market risk premium} * (\text{Beta coefficient} * (1 + (1 - \text{tax rate}) * \text{Leverage ratio}) + \text{special risk premium})$$

Among them, the determination of relevant indicators includes:

- Determination of risk free interest rate

According to capital asset pricing model (CAPM), risk-free interest rate is the rate of return that can be obtained by investing funds in an investment object without any risk. The determination of risk-free interest rate can be

based on the yield of zero coupon bonds (i.e. government bonds) with no default risk that can be observed at the evaluation time point. The implied risk-free spot interest rate can be calculated by Nelson Siegel Svensson model, and the risk-free interest rate yield curve at that time point can be fitted. Considering that KM Group's main business place and core business assets are located in Germany, and the longest maturity date of German government bonds can be observed in the market is 30 years, when fitting the risk-free interest rate yield curve, it is considered that the risk-free interest rate has reached a stable state 30 years from the evaluation point. On December 31, 2020 and December 31, 2019, the fitted stable long-term risk-free interest rates are - 0.20% and 0.20% respectively.

- Determination of market risk premium

The capital market-oriented market risk premium comes from the return difference between the representative market portfolio of equity investment and risk-free investment. On December 31, 2020 and December 31, 2019, the risk premium determined by the Company is 7.50%. According to the recommendations (6% - 8%) issued by FAUB, the expert committee of IDW (German Institute of Public Audit), the value is within the range recommended by FAUB.

- Determination of beta coefficient

The beta coefficient is determined by referring to the information of comparable listed companies in the same industry and the median beta coefficient of 11 comparable listed companies in the same industry in the past five years. The beta coefficients of 11 comparable listed companies in the same industry on December 31, 2020 and December 31, 2019 are as follows:

Name of comparable listed companies	2020	2019
DMG MORI AKTIENGESELLSCHAFT	0.12	0.52
GEA Group Aktiengesellschaft	0.84	0.80
KUKA Aktiengesellschaft	0.74	1.24
Heidelberger Druckmaschinen Aktiengesellschaft	0.28	0.49
Krones AG	1.02	1.15
Pfeiffer Vacuum Technology AG	0.72	0.81
Jungheinrich Aktiengesellschaft	0.62	0.60
Dürr Aktiengesellschaft	1.17	1.64
AIXTRON SE	1.49	1.29
Manz AG	1.11	0.41
Jenoptik AG	1.19	1.35

- Determination of special risk premium

The special risk premium reflects the differences in operational risks between the evaluation object and the comparable companies. As of December 31, 2020 and December 31, 2019, the other specific risk premiums determined by the Company are 1.00% and 0.00% respectively.

- Determination of leverage ratio

Leverage ratio is the ratio of debt ratio to equity ratio. As of December 31, 2020 and December 31, 2019, the debt ratio of 11 comparable listed companies in the same industry in the past five years is 7.00% and 4.95%, equity ratio is 93.00% and 95.05%, and leverage ratio is 7.53% and 5.21%. The specific leverage ratios of 11 companies in the same industry on December 31, 2019 and December 31, 2018 are as follows:

Name of comparable listed companies	2020	2019
DMG MORI AKTIENGESELLSCHAFT	-2.6%	-8.8%
GEA Group Aktiengesellschaft	17.4%	5.2%
KUKA Aktiengesellschaft	9.2%	5.2%
Heidelberger Druckmaschinen Aktiengesellschaft	296.3%	150.1%
Krones AG	7%	-1.4%
Pfeiffer Vacuum Technology AG	1%	-1.9%
Jungheinrich Aktiengesellschaft	87.9%	59.9%
Dürr Aktiengesellschaft	1.2%	0.4%
AIXTRON SE	-29.5%	-33.6%
Manz AG	9.7%	21.5%
Jenoptik AG	1%	11%