Stock Code: 002271 Stock Name: Oriental Yuhong Announcement No. 2023-018

BEIJING ORIENTAL YUHONG WATERPROOF TECHNOLOGY CO., LTD.

ANNUAL REPORT 2022 (SUMMARY)

Part I Important Notes

This Summary is based on the full Annual Report of Beijing Oriental Yuhong Waterproof Technology Co., Ltd.

financial position and future development plans, investors should carefully read the aforesaid full text, which has been disclosed together with this Summary on the media designated by the China

g for the review of this Report.

☑ Not applicable

Board-approved final cash and/or stock dividend plan for the Reporting Period:

☑

Bonus issue from capital reserves:

☑ No

The Board has approved a final dividend plan as follows: based on the total share capital at the record date when the dividend plan is implemented after deducting the repurchased shares in the share repurchase account, a cash dividend of RMB1.00 (tax inclusive) per 10 shares is to be distributed to the shareholders, with no bonus issue from either profit or capital reserves.

Board-approved final cash and/or stock dividend plan for preferred shareholders for the Reporting Period:

☑ Not applicable

This Summary has been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

Part II Key Corporate Information

1. Stock Profile

Stock name	Oriental Yuhong	Stock code	002271
Stock exchange for stock listing	Shenzhen Stock Exchange		
Contact information	Board Secretary	Securities Representative	
Name	Zhang Bei		
Office address	Courtyard 19, 9th Kechuang Street, Beijing Economic-technological Development Area, E-town, Beijing		
Fax	None		
Tel.	010-59031997		
E-mail address	stocks@yuhong.com.cn		

2. Principal Operations or Products in the Reporting Period

(I) The Company's Principal Operations

The Company develops, produces and markets new waterproof materials for buildings, as well as provides waterproof engineering. It is a provider of construction materials and systems that concentrates on waterproofing as the core business, as well as extends to civil construction materials, building coating materials, specialized mortar, building powder, energy-saving and heat preservation, building renovation, non-woven fabric, specialized film, etc.

The Company provides quality products and professional system services for buildings, high-speed railways, metro and urban railways, highways & urban roads and bridges, airports, water

iconic buildings such as the Chairman Mao Memorial Hall, the Great Hall of the People, the National Conv

Hong Kong-Zhuhai-Macao Bridge, the Beijing-Zhangjiakou railway, the Beijing-Shanghai high-speed railway, the Beijing-Tianjin inter-city high-speed railway and Beijing Metro. The Company

ping industry, benefiting the people with good

Company is also engaged in civil construction materials, building coating materials, specialized mortar, building powder, energy-saving and heat preservation, building renovation, non-woven

fabric, specialized film, etc. It owns many brands and business lines: Oriental Yuhong (engineering), Fasion (waterproofing), Yuhong Waterproof (civil construction materials), DAW (building coating), Vasa (specialized mortar), Lodi 1813 (diatom mud), BiAn (putty powder), Wonewsun (energy saving and heat preservation), Fudatec (energy pr6(g)-9(w)-4 t (energy pr6(g)-9(w)4( )-129((e)7(n)-9(e)4(rtton

2) Channel development: Civil Construction Materials Group continued to cultivate channels with steady growth and quality focus. It focused on weak markets, increased the national city coverage, and supported professional customers to become bigger and stronger; it also continued to expand sales outlets while focusing on the quality of channel operations, and stabilised the traditional strong channels through the network grading, strengthening visits and other initiatives to ensure the continued healthy and rapid development of channels. It also strengthened channel information management and uses information technology platform to achieve online management of sales network of business personnel to create a real-time and efficient + convenient review of business work mode. By the end of the Reporting Period, it had made remarkable achievements through key initiatives such as eliminating gaps, expanding categories and strengthening distribution, developing over 4,000 distributors, with more than 160,000 distribution outlets and nearly 40,000 distribution shops. At the same time, it continued to strengthen its cooperation with decoration companies and industrial decoration companies to achieve strong brand association, and has now established cooperation with more than 10,000 decoration companies.

It values the operation of the shop channel. Its shops in China are upgraded around high-end, diversified and professional shop experience, including consumer experience shops opened in home furnishing stores such as Red Star Macalline for high-end consumer experience; its shops in China has a unified retail management platform, strict retail price verification mechanism, superior purchase guide training, and professional shop management; multi-category and multi-grade product system is built with supporting waterproofing, paving, grouting, and repair services, providing a variety of consumption options.

Its e-commerce channel is developing rapidly, serving the C-end and empowering the channels. It continued in-depth cooperation with a number of e-commerce platforms such as Tmall, JD, Pinduoduo and Douyin, and made joint efforts with shops to create a perfect online and offline shop sales matrix. It fully utilised the advantages of efficient online information dissemination to provide clearer product display and more efficient delivery of quality products to consumers. In addition, it has opened a number of services such as waterproofing, grouting and interior refreshing on the online platform, continuously optimising the state of interoperability between online and offline, deeply implementing the new retail model and fully empowering the channels.

3) Membership operation: The group has long been committed to membership operation at the core, precisely targeting foremen and other professionals, and building a comprehensive operation -dealer-shop-

e rich, including hierarchical benefits, points benefits, member day benefits, etc. Members are deeply bound to the shops in China and enjoy exclusive membership services in these shops. As at the end of the Reporting Period, the number of members

4) Product development: the group focused on building construction products and sought a sustainable growth path from the perspective of both economies of scale and scope. During the Reporting Period, the group has always built its product power around health, environmental protection, energy saving and consumption reduction, and fueled the national carbon peak strategy by launching a series of products such as clean-smelling waterproof coating series, anti-bacterial full series of home decoration products, metal roofing waterproofing membrane, exposed asphalt coating, multi-fold anti-mould hemming adhesive and double protection tube. Environmental protection certification and the corresponding grades have been continuously increased, and many products have received green product certification and green building materials certification on top of successively obtained China Environmental Labelling Product Certification (10 Ring), French A+ certification, German EC1plus certification and CIAA anti-bacterial certification.

er specialised services to end-users, further enhancing the influence of the brand in the minds of end-consumers and effectively addressing the actual needs of end-consumers.

(2) Retail of building coatings

DAW has always adhered to the tonality and product quality and experiences that German brands aim to deliver to customers in the retail business of building coatings. It has carried out systematic marketing with a focus on products and combining the German coating process. By fully

leveraging the advantages of the color and functions of German products, DAW introduced the "Wall Care Is like Skin Care" product philosophy and the 2088 color system, making it a coating brand with both a century of coating experience and the capability to meet the needs of younger consumers.

1) Through product category expansion, blockbuster product creation, German coating empowerment, etc., DAW has successfully obtained more than 1,600 distributor partners and 18,000 sales outlets.

2) With blockbuster products as a breakthrough to drive overall sales, DAW has put in place a multi-tier system for product operation and sales, building competitive edges in scenario-based product sales.

3) Supported by the color system, DAW successfully cooperated with approximately 200 leading home decoration companies and over 4,000 regional home decoration companies. Addi

advantages ” of long-term development, product line advantages, technical service advantages and market advantages, while deeply integrating into the value chain, industry chain and supply chain of “ solving problems and meeting needs ” , actively exploring the “ intelligent, digital and process-oriented ” mobile Internet service model, helping shops achieve a breakthrough in “ service finds consumers ” , enhancing their active customer acquisition capabilities, promoting shop profit growth with lean management, and working with insurance companies to build a service model that covers the entire life cycle of a building. In particular, Yuhong Home Delivery Service built an operation and maintenance model that combined dual brands and strong channels and focused on one-stop house renovation services, including "waterproof renovation, wall renovation, air renovation, heating, ventilation and air conditioning renovation, door and window customization, space optimization, smart renovation, and bathroom prefabrication". Being one of the important strategies for the Company to make plans for the home decoration and home living segment, Yuhong Home Delivery Service carried out in-depth cooperation with JD Decoration and other business segments of JD. Com in offline stores, commodity supply chain, home services, and service commodification, to jointly build an "online and offline" omnichannel and an ecosystem that integrates "commodity, supply chain, and performance services" in the home decoration materials and building renovation industry. By doing so, it will achieve brand and channel empowerment in the field of building renovation. As of the date of disclosure of the Report, Building Renovation Group of Oriental Yuhong has built more than 500 stores across the country, including service centers and community service stations.

(2) During the Reporting Period, Sand Powder Technology Group has always adhered to the business philosophy of “ providing reliable products for customers ” . Together with its two brands, Vasa and BiAn, it focused on green building materials such as special mortar and construction powder, and extended to upstream raw materials such as aggregates and fine sand to provide customers with high-quality products and services. The group has five major product systems, including “ tile paving system, wall coating system, thermal insulation bonding system, floor leveling system and foundation construction system ” , and 28 types of system solutions to meet the needs of customers for different application scenarios, and has built a national production base layout and established a “ research, production, supply, marketing and service ” system with the factory as the origin, striving to achieve a nationwide supply radius of 300 km and 24-hour delivery.

(3) During the Reporting Period, based on the accrued R&D achievements, advanced technologies, product systems, system services and extensive practical experience in the field of distributed photovoltaics , Hong Sheng (Beijing) New Energy Technology Co., Ltd., a subsidiary of the Company, integrated the PV-related business and the supply chain-related products of the PV industry. It is committed to becoming a provider of new energy systems that are durable and safe. Its business covers EPC+F and operation and maintenance services for PV projects, wind power generation, energy storage systems, integrated services of PV power generation, power storage and power charging, as well as comprehensive energy support services. Its "Hong Sheng" distributed PV roofing system has formed a full-cycle multi-dimensional industrial chain that covers R&D, design, manufacturing, construction, operation and other processes, making it capable of responding efficiently to the needs of commercial and industrial plants for PV roofing. It has been applied to multiple projects, including automotive plants and data centers, as well as the Company's newly established and existing production, R&D, and logistics bases. During the Reporting Period, Hong Sheng New Energy ' s self-developed PV adhesive film

the characteristics of the existing markets and future market expansion directions in particular, a multi-layer marketing channel network integrating direct marketing and channel of dealers for product marketing and provision of system services:

Under direct marketing, the T1 0 0 1 302.83 52.584 Tm[ )]TJETgmr direct marke

companies of integrated operation in each region are responsible for sales and services of the Company's products in the local engineering markets, and through concentrating on local markets, special operation of regions and continuing efforts in low-tier markets, they have fully integrated local customers and market channel resources and enhanced the market coverage and penetration in local regions, and all sales channels and business lines worked together to drive up local market share. In the meantime, by actively leveraging the synergy between customer resources and sales channels accumulated based on the main business of waterproofing, the Company developed building coating materials, mortar and powder, heat preservation and energy saving, and other businesses, providing complete building material solution packages for customers.

2. The retail channel dealers are managed by Civil Construction Materials Group, the building coating materials retail division, and Building Renovation Group s Yuhong Home Delivery Service division. An all-in-one composite marketing network covering dealers of home decoration companies, construction material supermarkets, construction material markets and community service stations as well as e-commerce platforms has been put in place to serve the general consumer home decoration market.

(III) Overview of the Industry and the Company’s Position in the Industry

The Company competes in the waterproof construction material industry, a segment of the construction material industry. Waterproof materials are functional materials indispensable for modern architecture. As cities keep growing, waterproof construction materials will be applied to more and more areas with great growth potential and prospects.

Currently, with low concentration, market fragmentation and unhealthy competition, the

Among the many waterproofing firms, only a few can provide good services, while the many others are of small size with outdated technology and production technique. The market is flooded with counterfeit and shoddy products. And the industry is trapped in excessive lagged output capacity, unhealthy competition and environmental issues. In recent years, with the rollout of regulating and industry policies concerning quality inspection, anti-counterfeit, environment inspection, safe production and green and energy conservation, etc., in addition to a product structure upgrade, higher quality requirements of downstream customers, and increasing competitiveness of large

waterproofing companies, the waterproofing market is witnessing increasing concentration towards leading companies.

Since its establishment, the Company has been providing high-quality, integrated construction material and system solutions for major infrastructure constructions, as well as industrial, civil and commercial constructions. It is dedicated to solving construction safety problems caused by low-quality waterproofing and the high leakage rate. Upon more than two decades of experience in the construction material industry, the Company has transformed and upgraded to be a domestic leader in terms of R&D, comprehensive product competitiveness, production process and equipment, application technology, marketing model, professional system service capability, brand presence, etc., with strong competitiveness and growth. It attains a prominent position in the industry.

3. Key Financial Information

(1) Key Financial Information of the Past Three Years

Indicate by tick mark whether there is any retrospectively restated datum in the table below.

Yes ☑ No

Unit: RMB

	31 December 2022	31 December 2021	Change of 31 December 2022 over 31 December 2021 (%)	31 December 2020
Total assets	50,555,779,624.44	49,733,226,928.38	1.65%	27,82 343.1 0 0 1 56

(2) Key Financial Information by Quarter

Unit: RMB

	Q1	Q2	Q3	Q4
Operating revenue	6,308,586,697.46	8,998,126,812.65	8,071,951,673.22	7,835,170,062.91
Net profit attributable to				

Ownership Plan of Beijing Oriental Yuhong Waterproof Technology Co., Ltd. HFT Fortune-Oriental Yuhong Employee Stock Ownership Single Asset Management Plan						
DCP Management, Ltd. DCP USD Fund II	Foreign legal person	1.83%	45,969,375	0		
China Merchants Bank Co., Ltd. Ruiyuan Growth Value Mixed Securities Investment Fund	Other	1.58%	39,713,020	0		
Janchor Partners Janchor Partners Pan Asian Master Fund RQFII	Foreign legal person	1.39%	34,974,679	0		
Kuwait Investment Authority	Foreign legal person	0.99%	24,826,563	0		
Abu Dhabi Investment Authority	Foreign legal person	0.94%	23,682,220	0		
UBS AG	Foreign legal person	0.92%	23,238,456	0		
Related or acting-in-concert parties among the shareholders above	It is unknown whether there is any related party or acting-in-concert party as defined in the Measures for the Administration of the Takeover of Listed Companies among the shareholders above.					
Shareholders involved in securities margin trading (if any)	Shareholder HFT Fortune Asset Management 2021 Employee Stock Ownership Plan of Beijing Oriental Yuhong Waterproof Technology Co., Ltd. HFT Fortune-Oriental Yuhong Employee Stock Ownership Single Asset Management Plan purchased 49,471,665 shares in the Company through securities margin trading.					

as well as a down-to-earth and practical spirit. It actively responded to changes, seized new opportunities, and drove new growth. Guided by the overal

materials, adhesives and tube materials such as putty powder and reinforcing agent, with an aim to better satisfy consumers' pursuit of a peasant and healthy living environment and create a safe home for every consumer. During 2022, Civil Construction Materials Group recorded operating revenue of RMB6.078 billion, up 58% year on year. DAW has always adhered to the tonality and product quality and experiences that German brands aim to deliver to customers in the retail business of building coatings. It has carried out systematic marketing with a focus on products and combining the German coating process. By fully leveraging the advantages of the color and functions of German products, DAW introduced the "Wall Care Is like Skin Care" product philosophy and the 2088 color system, making it a coating brand with both a century of coating experience and the capability to meet the needs of younger consumers.

Delivery Service, based on the home repair market, formed a leak repair, HVAC repair, air repair, wall repair, space optimisation, intelligent transformation and other diversified service model and one-stop solutions, started with the view of solving customer pain points, and brought the whole-house, whole-repair, new, wholehearted experience through process specialisation, service standardisation for consumers to live in a better home.

During the Reporting Period, the Company unswervingly followed the path of green and sustainable development. It endeavored to improve the quality and efficiency of products and services, reduced energy consumption and cut carbon emissions through the application of new materials, new technologies ad new processes to play its part in regard to "carbon emission peak and carbon neutrality". It implemented lean production management and the commercialization of R&D technology innovation and research findings. Relying on the powerful R&D team and a complete industrial system of construction and building materials and focusing on the green energy saving, low-carbon and environmental protection, technology accumulation and smart manufacturing, the Company worked hard to build a high-quality research and innovation system, forming a full lifecycle innovation ecological chain that integrated "fundamental research, technological breakthrough, commercialization of research findings and industrial integration". These efforts have helped drive innovation and growth, as well as promote commercialization and application of research findings. As of the end of the Reporting Period, the Company had accumulatively 1,522 valid patents (425 inventions, 942 utility models and 155 designs), including 12 valid foreign patents.

-saving segment under the Company adhered to the concept of green, low-carbon and environmental sustainability, continued to explore ways to reduce building energy consumption, improve building safety performance and promote the development of the green building industry, actively participated in carbon emission reduction and carbon neutrality, enriched and improved the application of systems in the low-carbon field, and made every effort to build a corporate positioning of carbon emission management for the whole

-zero energy EPC service system has been formed, with six patents applied for special materials for the near-zero energy system in 2022 and two papers published, laying a solid foundation for further enriching the product line, expanding the applicable fields of products and reducing carbon emissions. In the context of the national policy of promoting green construction methods, accelerating the industrialisation of new buildings and vigorously developing assembled buildings, a series of products and systems represented by Wonewsun integrated insulation and decorative panels and Wonewsun assembled interior decoration systems have been launched into the market, providing customers with one-stop, full-cycle services from design to construction in the form of application scenario solutions, which enhance the degree of assembling of project construction while providing customers with more colourful decorative effects. At the same time, Shanghai InfinShine New Material Technology Co., Ltd., a subsidiary of Wonewsun, with its industry-leading rock wool and glass wool production technology, actively participated in the construction of various types of buildings such as industrial and commercial energy-saving construction by providing high-quality energy-saving insulation materials, energy-saving insulation for industrial buildings and system solutions for sound environment improvement.

During the Reporting Period, to sharpen standardized construction service skills and cultivate globally competitive industry technical workers so as to create a resource pool of highly skilled inter-disciplinary talent with craftsmanship for the industry and promote high-quality development of the industry, the Company continued to improve professional and systematic training and built a talent incubation base relying on the system of curriculum-competition-certificate integration. For example, Oriental Yuhong Vocational Training School actively responded to the appeal in the Guidelines on Promoting the High-quality Development of Modern Vocational Education issued by the General Office of the CPC Central Committee and the State Council, which "encouraged listed

production lines and factory logistics, digitalisation of production execution, leaning of processes, interconnection and intelligent analysis of equipment, and safety and environmental protection; the Company has also developed a benchmark factory construction plan; MES was successfully

digitalisation and cost refinement in the entire manufacturing process; the four service sharing platforms of finance, human resources, risk control and IT were applied across the Company, further enhancing management efficiency; the Yuhong Craftsman platform was fully promoted, with over 7,000 existing labour teams and over 280,000 labourers; the Yuhong Home Delivery Service platform was further optimised to achieve digitalisation of the entire process, and was connected to some internet platforms and property service platforms to form a multi-networked one-stop service platform, effectively connecting over 500 community service stations with end-users (owners) across the country and upgrading the user experience across the board.

(II) Operating Performance of the Company

1. Macroeconomic a

levels continued to improve, elevating overall national strength and providing a more solid foundation for development, with the overall economic performance remaining stable. The annual GDP reached RMB 121,020.7 billion, an increase of 3.0% over the previous year, while the annual per capita GDP reached RMB 85,698, also increasing by 3.0% compared to the previous year. The year 2022 showcased the effective demonstration of the industr

year-end added value of RMB 40,164.4 billion for all industries, indicating a 3.4% increase from the previous year. Moreover, the added value of industrial enterprises above the designated size experienced a stable recovery trend, with a 3.6% increase, and manufacturing growing by 3.0%. Industrial enterprises above the designated size witnessed a decline of 1.5% in the non-metallic mineral products industry over the year. Additionally, manufacturing profits dropped by 13.4%, reaching RMB 6,415 billion. The annual added value of the construction industry reached RMB 8,338.3 billion, an increase of 5.5% over the previous year.

Investment scales continued to broaden, with RMB 57,213.8 billion invested in fixed assets (excluding rural households) throughout the year, an increase of 5.1% over the previous year. Private fixed asset investment totaled RMB 31,014.5 billion, indicating a 0.9% increase from the

previous year. Infrastructure investment accelerated significantly, increasing by 9.4% compared to the previous year. The social sector witnessed a rapid growth, with a 10.9% increase in investment. In 2022, the planned investment in projects with a total investment of billions of yuan or more surged by 12.3% from the previous year. The growth rate was 5.4 percentage points higher than the previous year, thereby driving the overall fixed asset investment growth by 6.2 percentage points, which was 2.8 percentage points higher than the previous year. Leading investment indicators suggest that the planned total investment in newly started projects in 2022 soared by 20.2% from the previous year. Furthermore, the investment in place (excluding real estate development investment) witnessed a significant increase of 21.8%, which ensured a robust and steady growth of investment. Real estate development investment throughout the year amounted to RMB 13,289.5 billion, a decrease of 10.0% over the previous year. Nationwide, the renovation of various shanty towns initiated the refurbishment of 13.4 million housing units, of which 18.1 million units were primarily completed throughout the year. Additionally, 2.65 million government-subsidized rental

,500

old urban residential communities underwent renovation, encompassing 8.76 million households.

The waterproofing industry encountered both opportunities and challenges in 2022. The industry encountered some challenges, such as weak downstream demand and high bulk raw

-2022) on 1 April, 2023, presented an opportunity for the industry. The code mandates the service life of waterproofing design projects and demands higher requirements regarding the number of waterproof layers and material thickness, thus providing a chance for the industry to enhance quality and output. Furthermore, the industry is expected to gain momentum in the future due to policies that promote infrastructure investment and urban renewal projects.

2. Changes in relevant industry policies and specific impacts on the Company. A series of policies have been introduced by the country and various regions, targeting the waterproofing industry in aspects such as green development, energy conservation and environmental protection, urban construction, rural revitalization, vocational education, and standard improvement.

(1) Green Development

National and regional policies have been successively issued to promote green building

province must reach 100% of new civil construction and that the completed area must account for over 70% of newly completed civil construction. The newly started area of prefabricated buildings should account for more than 25% of new construction, and the completed area should account for

regulations for urban agglomeration green development, green low-carbon cities, green energy

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Year Plan for Green Buildings in Chongqing (2021-

for 100% of new urban construction by the end of 2025, with the application proportion of green

Opinions on Promoting the High-Quality Development of the Construction Industry in Our City which includes regulations for promoting green low-carbon development in the industry and proposes that by 2025, newly built green buildings should total no less than 200 million square meters, with high-star green buildings accounting for no less than 65%. The policies mentioned

green development concept. Companies continuously explore transformation and upgrade towards green and sustainable development through scientific research, innovation, process improvement, intelligent production, and green construction.

(2) Energy Conservation and Environmental Protection

The National Development and Reform Commission and other departments jointly issued the

on Improving the System and Mechanism and Policy Measures for Energy Green and Low-

14th Five-Year Plan period. It addresses major requirements for building livable, innovative, smart, green, humane, resilient cities and beautiful livable villages, with regulations in nine areas, including green and low-carbon technology research in urban and rural construction. The State -Year Plan for Comprehensive Energy Conservation and Emission Reduction

be reduced by 13.5% compared to 2020, and total energy consumption should be reasonably controlled. The Ministry of Housing and Urban- e of the 14th Five-

by 2025, more than 350 million square meters of existing buildings should undergo energy-saving renovations, over 50 million square meters of ultra-low energy consumption and near-zero energy consumption buildings should be constructed, the proportion of prefabricated buildings in new urban construction should reach 30%, and the newly installed solar photovoltaic capacity for buildings nationwide should be over 50 million kilowatts. The Ministry of Industry and Information

Innovation and Development Action Plan (2021-

development level, supporting the new power system, and contributing to the peak carbon emission and carbon neutrality of various intelligent photovoltaic sectors. These include intelligent photovoltaic industries, transportation, construction, agriculture, villages, power stations, communication, and innovative applications, as well as optimizing the development environment of

and maintenance throughout the whole life cycle, the standard improves the durability requirements of waterproof materials, increases the number of waterproof layers and material thickness, and meets the working life requirements of engineering waterproof design. This enhances the quality of waterproofing projects, laying a solid foundation for reducing building leakage rates comprehensively. Furthermore, the demand for high-quality waterproof materials will increase, leading to an overall improvement and growth in the industry.

Following the formulation and publication of a series of waterproofing-related national and local policies, the Company conscientiously organized employees to study these policies, dived into and made continuous improvements in all procedures and fields such as policy research, product R&D, process improvement, production and sales, standardized construction and training for construction workers, and environmental measures. It fully leveraged and expanded its comprehensive advantages in brand, product R&D, product quality, product categories, cost control, marketing network, application technology, etc., and applied its superior products and professional system services to more scenarios to benefit numerous families.

3. Market competition. The Company competes in the waterproof construction material industry, a segment of the construction material industry. Waterproof materials are functional materials indispensable for modern architecture. As cities keep growing, waterproof construction materials will be applied to more and more areas with great growth potential and prospects.

Currently, with low concentration, market fragmentation and unhealthy competition, the

Among the many waterproofing firms, only a few can provide good services, while the many others are of a small size with outdated technology and production technique. The market is flooded with counterfeit and shoddy products. And the industry is trapped in excessive lagged output capacity, unhealthy competition and environmental issues. In the recent years, with the rollout of regulating and industry policies with respect to quality inspection, anti-counterfeit, environment inspection, safe production and green and energy conservation, etc., in addition to a product structure upgrade, higher quality requirements of downstream customers, and increasing competitiveness of large waterproofing companies, the waterproofing market is witnessing increasing concentration towards leading companies.

The Company is a leader in terms of R&D, comprehensive product competitiveness, production process and equipment, application technology, marketing model, professional system service capability, brand presence, etc., and attains a prominent position in the industry.

4. Periodicity, seasonality and regionality of the industry. (1) Periodicity. Waterproof construction material industry is a fundamental industry in the field of building materials, without clear periodicity. (2) Seasonality. Waterproof construction material industry has seasonality to a certain extent. In North China, the first quarter of each year is generally the slack season for the sales of waterproof building materials and engineering construction because of cold weather. In South China, the seasonality of waterproof building materials is mainly reflected in the reduction in construction in rainy seasons. (3) Regionality. The economic transportation radius of waterproof building materials is approximately 500 kilometers, so this industry has certain regional characteristics. The enterprises in the industry are generally of small scale, and many of them limit the sales of waterproof materials to the regions where the materials are produced, further reinforcing the regional characteristics of the industry. Therefore, in order to grow bigger and stronger in the industry and increase market shares, it is all the more necessary for enterprises of this industry to build production bases across the country and actively conduct cross-regional business.

The Company has built R&D centers for production and logistics in regions such as North China, East China, Northeast China, Central China, South China, Northwest China, and Southwest China. Its production capacity is arranged extensively and rationally to ensure that its products can be sold to markets nationwide at lower warehousing and logistics costs, and that coordinated production and shipment are realized all over the country. Therefore, the Company enjoys competitive advantages unmatched by its competitors in respect of satisfying customers' diverse product demands and the supply requirements nationwide.

5. Main raw materials of products and their supply. Main raw materials required by the Company's production include asphalt, SBS modifiers, polyester asphalt, emulsion, polyether, TDI, MDI and TOP resin, among others. The supply is sufficient and stable. Among them, asphalt is one of the main raw materials of the Company. During the Reporting Period, the price for some raw materials represented by asphalt rose substantially, which imposed a certain impact on the overall

gross margin of the Company. With the mature and complete raw material procurement system, in order to cope with the volatility risks of price fluctuation for raw materials, the Company leveraged the advantages of scale operation and set up strategic cooperation relationships with main upstream raw material suppliers, ensuring that the Company can steadily procure main raw materials at a relatively low price in a long term to reduce the production cost of products. In addition, the purchasing department made reasonable purchasing plans for major materials by accurately grasping the market tendency. All departments efficiently worked together to control costs through advanced technologies, advantages of centralized procurement of main raw materials, improvement of ability for price negotiation, and scale benefits. Furthermore, based on the demand for production and management and the industry market, the Company also reduced procurement costs by purchasing in slack seasons or making proper purchasing plans. In addition, in order to ensure the stability of the supply of some key raw materials and further optimise raw material costs, the Company's industrial chain has been extended to some upstream raw materials such as non-woven fabrics, functional films, VAE emulsions and VAEP adhesive powders, so as to enhance the Company's anti-risk ability in the procurement process and expand its cost advantages.

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(III) Business Plan for 2023

Based on the analysis of the macro- s, as well as its pursue faster growth unremittingly

unremitt

collaborating with suppliers, broadening benchmark dimensions, strategically planning forward warehouses, promoting in-house logistics, improving information management, and strengthening