



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. (together with its consolidated subsidiaries, the “Company”, except where the context otherwise requires). In order for a full understanding of the Company’s operating results, 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 Securities Regulatory Commission (the “CSRC”).

All the Company’s directors have attended the Board meeting for the review of this Report.

Independent auditor’s modified opinion:

Applicable Not applicable

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

Applicable Not applicable

Bonus issue from capital reserves:

Yes 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:

Applicable 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 conservancy facilities, utility tunnels, etc. The Company's products have been used in China's iconic buildings such as the Chairman Mao Memorial Hall, the Great Hall of the People, the National Convention Centre, the Bird's Nest, the Water Cube, the CITIC Tower and the Beijing Daxing International Airport, as well as in the country's major infrastructure projects including the 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 sees "for the motherland, for the society, for customers, for employees and shareholders" as its corporate tenet, "serving the country by developing industry, benefiting the people with good services" as its guideline, and "building a durable and safe environment for human beings and the society" as its corporate vision. In addition to the core business of building waterproofing, the 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 saving and heat preservation), InfinShine (energy saving and heat preservation), Oriental Yuhong Building Renovation (building renovation), Top (non-woven fabric), Gold Machilus (specialized film), Hongshi Technology (fine and specialty chemicals), Zhong Ke Jian Tong (formation improvement and engineering rehabilitation), vocational training, and Oriental Yuhong roofing tile system (construction roofing tile system).

1. The engineering business: During the Reporting Period, the Company deepened the integrated operation of provincial organizations. By "weakening the headquarters, enhancing the middle-level, and strengthening the primary level", the Company advanced its organizational structure reform. It tapped its advantageous resources, improved quality and efficiency, removed the barriers between channels, explored channels in low-tier markets, upgraded channel policies and built channel leadership. The companies of integrated operation in all regions have fully integrated local customers and market channel resources, enhanced the market coverage and penetration in local regions, and continuously worked on those markets with no or weak presence through concentrating on local markets and special operations of regions. Besides, the direct marketing and engineering channels were integrated deeply and worked together, so as to better serve the market and customers and increase market share. During the Reporting Period, the Company adhered to the priority of partners and continued to empower partners. Additionally, it summarized and promoted the successful experience of "partner mechanism" in the field of engineering channel continuously. The partner mechanism has been upgraded in an all-round manner. Relying on the comprehensive advantages of products, brands and resources, it developed partners who agree with the Company's culture and development concept, at the same time it increased the support for partners by improving market management, credit management, technical support and services. It further consolidated and developed the strategic cooperation with large business groups, and actively expanded and extended customer resources from depth and breadth. In non-real-estate fields such as infrastructure construction, urban emerging infrastructure, industrial and mine warehousing and logistics, as well as affordable housing and urban renewal, it increased sales and promotion efforts. Besides, it upgraded the means of market management and control, and constantly improved market



order by reinforcing means of internal sales control and product tracing.

2. The retail business: During the Reporting Period, the C-end retail business, represented by Civil Construction Materials Group and the building coating retail (or "DAW coating retail") division, was well prepared, took solid steps, and maintained steady growth.

(1) Civil Construction Materials Group

During the Reporting Period, Civil Construction Materials Group focused on the dual main business strategy of "waterproofing and moisture-proofing systems + tile fitting and grouting systems" and worked hard to cultivate its product lines of wall auxiliary materials, adhesives and tube materials including waterproofing coatings, sheet materials and repair, tile fitting, grouting, putty powder, reinforcing agent, etc. It continued to lead the new development for the industry of waterproof coatings and waterproof sheet materials. While solidifying the core business of waterproofing, it stepped up efforts to increase the market share of the tile adhesives and grout products, and cultivated new product categories of wall auxiliary 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, thus improving the quality of living and protecting numerous families. Civil Construction Materials Group has become a household name for construction materials and home decoration. During 2022, Civil Construction Materials Group recorded operating revenue of RMB6.078 billion, up 58% year on year.

1) Brand development: Civil Construction Materials Group focused on enhancing its brand influence, radiating its coverage across the region and building its brand voice. With the strategy of crowd circle expansion to empower growth, while consolidating the communication of the circle of professionals and designers, offline efforts were focused on increasing the number of shops, optimising product displays, outdoor advertising and other pulling actions to increase end-consumption to continuously penetrate the offline market. The online platform is widely laid out, covering the official website, WeChat public platform, WeChat video account, Sina Weibo, Douyin, Zhihu, Xiaohongshu and other media platforms, continuing to increase the penetration of high-weight media at multiple points. The combination of online and offline platforms has built a three-dimensional brand perception and expanded brand influence from users' mental perception.

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 professional end, perfecting the membership operation system with “Yuhong Brotherhood” as the core, precisely targeting foremen and other professionals, and building a comprehensive operation system of “company-dealer-shop-member”. Members’ needs for product purchases, training and entrepreneurship can all be realised through the “Yuhong Brotherhood” membership platform. The member benefits of “Yuhong Brotherhood” are 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 of “Yuhong Brotherhood” had exceeded 2 million.

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.

5) Service layout: the group accelerated the layout of its service system to provide “Yuhong Waterproofing Repair Services”, “Yuhong Grouting Services”, “Yuhong Waterproofing Engineering Services” and other 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. Additionally, it built more than 1,400 exclusive shops in major markets nationwide. Through the aforementioned cooperation, it achieved brand publicity and promotion and attracted customers for its products.

4) In terms of brand promotion for members, DAW deeply explored new ways of Internet interaction to empower new retail. It took the lead in launching the "Rise of Members" campaign in the industry, a new brand promotion program for members, and creating profiles of member customers. Targeting professionals, the campaign helped DAW gradually secure approximately one million professional members. Additionally, multiple marketing methods were adopted to enhance customer stickiness and drive them to make repurchases.

3. The emerging business: During the Reporting Period, the business segments operated by Building Renovation Group, Sand Powder Technology and Hong Sheng New Energy, among others, carried out in-depth exploration to gather momentum.

(1) During the Reporting Period, Building Renovation Group acted on the "Constructing Hundred-year Worry-free Buildings and Helping People Live and Work in Peace and Contentment" development strategy, made in-depth plans for the "2G, 2B and 2C" building renovation service market, and gradually launched the campaign to "develop millions of new customers through thousands of stores in hundreds of cities". Building Renovation Group has demonstrated the "four



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 (“PV”), 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 was successfully trial produced, marking the company’s further extension to the upstream of the photovoltaic industry chain. The company proactively cooperated with upstream and downstream PV enterprises, including the establishment of Yuhong JA New Energy Technology Co., Ltd. together with JA Solar Technology Co., Ltd. start a comprehensive layout of the “PV + waterproofing” market; it also had a strategic cooperation with China Electric Power to explore business cooperation in new energy development, building waterproofing PV and energy saving; and cooperated with GoodWe Technology Co., Ltd. in the field of PV by complementing each other’s strengths and resources. In July 2022, Hong Sheng (Beijing) New Energy Technology Co., Ltd. was named the 2022 "Polaris Cup" Excellent Case Enterprise for Integrated Energy Services. In the future, Hong Sheng (Beijing) New Energy Technology Co., Ltd. will rapidly develop the comprehensive energy business including wind and PV power generation and storage by continuing to rely on the Company's customer resources, synergistic sales channels, good brand presence, and excellent system service capabilities, thereby empowering green and sustainable development with technologies.

(II) Sales Models

Based on different product uses and users, the Company has established, taking into account



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 Company directly develops, sells products to and serves the final product users and customers. It has entered into strategic cooperation agreements or long-term supply agreements with many quality real estate companies, enterprises and groups. Meanwhile, it has enhanced customers' confidence by coming into direct contact with them in professional market segments such as industrial constructions, energy construction, railway, highway, rail transit, tunnels and underground projects, projects that concern people's livelihood, among other things. Additionally, it has established a long-term and stable partnership in terms of material supply and system services. Direct marketing has increased the Company's visibility in the industry and provided an important guarantee for sustained and steady growth in its results. Under the channel of dealers, the Company directly develops, sells products to and serves the final product users and customers via channel partners such as dealers. There are engineering dealers and retail dealers. The Company has signed contracts with large numbers of dealers, and created a dealer network system that has a reasonable layout and controllable risk and is economical, efficient and vibrant. Through constantly reinforcing systematic training and services for dealers, the dealer network has gradually developed into an essential sales channel for the Company to tap into the nationwide market.

Presently, the Company has formed a multi-dimensional engineering marketing network combining direct marketing and channel of engineering dealers, as well as a marketing network for civil building materials centered on the channel of retail dealers.

1. The engineering market consists of North China, East China and South China, focusing on the sales of the specialized companies and business divisions of professional market segments, such as railway, highway, rail transit, industrial construction, energy construction, and underground projects. Specifically, the companies of integrated operation and centralized procurement divisions are set up in provinces under the jurisdictions of North China, East China, and South China as the carriers. The centralized procurement divisions focus on serving large strategic cooperation customers nationwide by entering into strategic cooperation agreements or long-term supply agreements to conduct in-depth cooperation with such customers in more business areas. The



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 the Company's subsidiary 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 domestic construction waterproofing industry features "many small firms in a large industry". 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%	27,846,648,780.80
Equity attributable to the listed company's shareholders	26,807,182,612.69	26,294,395,090.54	1.95%	14,614,377,078.75
	2022	2021	2022-over-2021 change (%)	2020
Operating revenue	31,213,835,246.24	31,934,201,004.74	-2.26%	21,730,373,038.52
Net profit attributable to the listed company's shareholders	2,120,297,575.39	4,204,699,487.90	-49.57%	3,388,870,065.01
Net profit attributable to the listed company's shareholders before exceptional gains and losses	1,802,763,332.92	3,867,427,213.50	-53.39%	3,091,374,862.33
Net cash generated from/used in operating activities	654,012,763.96	4,114,675,325.17	-84.11%	3,951,695,455.50
Basic earnings per share (RMB/share)	0.85	1.74	-51.15%	1.51
Diluted earnings per share (RMB/share)	0.84	1.70	-50.59%	1.46
Weighted average return on equity (%)	7.97%	19.92%	-11.95%	27.37%

**(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 the listed company's shareholders	317,225,196.33	649,171,842.92	688,423,552.82	465,476,983.32
Net profit attributable to the listed company's shareholders before exceptional items	296,641,007.89	593,748,628.29	631,735,694.77	280,638,001.97
Net cash generated from/used in operating activities	-4,784,387,562.47	-2,195,980,813.23	-982,216,995.18	8,616,598,134.84

Indicate by tick mark whether any of the quarterly financial data in the table above or their summations differs materially from what have been disclosed in the Company's quarterly or interim reports.

Yes No

4. Share Capital and Shareholder Information at the Period-End**(1) Numbers of Ordinary Shareholders and Preferred Shareholders with Resumed Voting Rights as well as Holdings of Top 10 Shareholders**

Unit: share

Number of ordinary shareholders at the period-end	149,570	Number of ordinary shareholders at the month-end prior to the disclosure of this Report	137,384	Number of preferred shareholders with resumed voting rights at the period-end	0	Number of preferred shareholders with resumed voting rights at the month-end prior to the disclosure of this Report	0
Top 10 shareholders							
Name of shareholder	Nature of shareholder	Shareholding percentage	Total shares held at the period-end	Restricted shares held	Shares in pledge, marked or frozen		
					Status	Shares	
Li Weiguo	Domestic natural person	22.69%	571,332,887	428,499,665	In pledge	281,713,640	
Hong Kong Securities Clearing Company Ltd.	Foreign legal person	13.15%	331,059,553	0			
Xu Limin	Domestic natural person	2.87%	72,269,250	61,701,937			
HFT Fortune Asset Management—2021 Employee Stock	Other	1.96%	49,471,665	0			

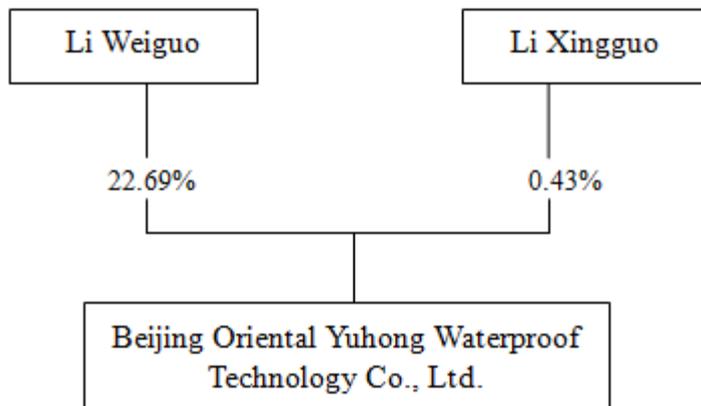


Ownership Plan of Beijing Oriental Yuhong Waterproof Technology Co., Ltd.— HFT Fortune-Oriental Yuhong Employee Stock Ownership Single Asset Management Plan						
DCP Management, Ltd.— DCP USD Fund II	Foreign legal person	1.83%	45,969,375	0		
China Merchants Bank Co., Ltd.— Ruiyuan Growth Value Mixed 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.					

**(2) Number of Preferred Shareholders and Shareholdings of Top 10 of Them**

Applicable Not applicable

No preferred shareholders in the Reporting Period.

(3) Ownership and Control Relations between the Actual Controller and the Company

Note: Mr. Li Weiguo is the actual controller of the Company. And Mr. Li Xingguo is Mr. Li Weiguo's brother and acting-in-concert party.

5. Outstanding Bonds at the Date when this Report Was Authorized for Issue

Applicable Not applicable

(1) Bond Profile

Bond name	Abbr.	Bond code	Issue date	Maturity	Outstanding balance (RMB'0,000)	Interest rate
The First Phase of Green Asset-Backed Notes of Accounts Receivable (Technology Innovation Notes) of Beijing Oriental Yuhong Waterproof Technology Co., Ltd. in 2022 Senior	22 Oriental Yuhong ABN001 Senior	082282001	15 December 2022	18 September 2023	47,500	4.30%
The First Phase of Green Asset-Backed Notes of Accounts Receivable (Technology Innovation	22 Oriental Yuhong ABN001 Subordinated	082282005	15 December 2022	18 September 2023	2,500	



Notes) of Beijing Oriental Yuhong Waterproof Technology Co., Ltd. in 2022 Subordinated						
Interest payment during the Reporting Period	None					

(2) Latest Rating and Rating Change

During the Reporting Period, Dagong Global Credit Rating Co., Ltd. issued the Credit Rating Report 2022 on Beijing Oriental Yuhong Waterproof Technology Co., Ltd. on 12 July 2022, which determined the long-term credit rating of the Company to be AAA with a stable outlook; and the Credit Rating Report on The First Phase of Green Asset-Backed Notes of Accounts Receivable (Technology Innovation Notes) of Beijing Oriental Yuhong Waterproof Technology Co., Ltd. in 2022 on 11 October 2022, which determined the credit rating of the senior asset-backed notes to be AAAsf.

(3) The Major Accounting Data and the Financial Indicators of the Recent 2 Years of the Company up the Period-end

Unit: RMB'0,000

Item	2022	2021	Change
Debt/asset ratio	46.22%	46.35%	-0.13%
Net profit before exceptional gains and losses	180,276.33	386,742.72	-53.39%
EBITDA/debt ratio	15.47%	25.35%	-9.88%
Interest cover (times)	14.15	36.38	-61.11%

Part III Significant Events

(I) Overview

In 2022, in the face of a complex and severe international environment and challenges from factors beyond expectations, China adhered to the general keynote of seeking progress in a stable manner, implemented the new development concept completely, accurately and comprehensively, and accelerated the construction of a new development pattern, with the economy gradually returning to stability and improving, and the quality of development steadily improving.

During the Reporting Period, Oriental Yuhong forged ahead with confidence and commitment,



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 overall strategy of “eliminating the false and saving the true, keeping the body strong, sharing the ambitions between the upper and the lower, and self-innovating”, and following the core philosophy and principles of the Basic Rules of Oriental Yuhong, it rose to the uncertainties of the market, and forged ahead with a united mind and strength.

During the Reporting Period, the Company remained dedicated to its strategic positioning of high-quality and more solid development, gave top priority to risk control, and insisted on sound operation, innovation and technological leadership. It also remained committed to centering on customers and upheld long-termism and ongoing hard work. Based on quality products and professional system services, it provided customers with through-life, one-stop building material system services, built a one-stop system service platform, made sustained efforts to become an extraordinary system service provider of building materials, and dedicated itself to becoming the most valuable firm in the industry of building materials across the world. During the Reporting Period, always being customer-oriented, the Company focused on building waterproofing and at the same time extended its business to the sectors such as civil construction materials, building coating materials, specialized mortar, building powder, energy-saving and heat preservation, and building renovation. Leveraging the customer resources accumulated based on the main business of waterproofing, the synergy of sales channels and a strong brand presence, the Company developed non-waterproofing businesses at a faster pace. Centering on customer demand, the Company provided more refined construction material and system solutions to customers. Meanwhile, the Company actively made plans for upstream industries, such as non-woven fabric, specialized film, VAE emulsion and VAEP powder, so as to strengthen the anti-risk capability of the Company’s supply chain and build a deeper and wider moat for the Company.

During the Reporting Period, the Company adhered to the strategy of prioritizing the C-end. Civil Construction Materials Group continued to lead the new development for the industry of waterproof coatings and waterproof sheet materials by focusing on the dual main business strategy of waterproofing and moisture-proofing systems and the tile fitting and grouting systems. While solidifying the core business of waterproofing, it stepped up efforts to increase the market share of the tile adhesives and grout products, and cultivated new product categories of wall auxiliary



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. Building Renovation Group's Yuhong Home 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 and 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.

During the Reporting Period, Wonewsun's energy-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 life cycle of buildings. Among them, Wonewsun's near-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



companies and industry-leading businesses to develop vocational education and all businesses to participate in developing vocational education according to the law". It rapidly built more than 30 branches across the country and carried out the level certification, training and examinations of vocational skills. Additionally, it held enterprise vocational skill level certification qualifications for 19 related types of work in the building materials industry, including "waterproofers", "tile fitters" and "painters". It actively conducted school-enterprise cooperation to deepen the industry-education integration. For ten consecutive years from 2013 to 2022, it organized the "Yuhong Cup - Craftsmanship" National Construction Waterproofing Vocational Skills Competition; it held national second-class competitions, industry competitions and other vocational skill competitions for the second year straight, such as the National Competition for the Vocational Skills of the Prefabricated Building Industry. By doing so, it cultivated and selected high-level technical and skilled talent and provided an important impetus to the high-quality development of the industry. During the Reporting Period, the Company has cooperated with 12 vocational schools nationwide and established the "Oriental Yuhong Master Studio", through which it provided a practical training and practice platform as well as high-quality employment opportunities for graduates of higher vocational schools and contributed to the sustainable development of society and the industry.

The Company continued to promote its digital transformation strategy to enhance efficiency and risk prevention and control capabilities, reduce costs and build core competitiveness through process optimisation in various areas and the application of digital technology. During the Reporting Period, the Company's integrated marketing platform was fully launched, realising the end-to-end business process pull-through of engineering marketing LTC from lead to payment collection; the blueprint design of the settlement performance project group was completed, which is expected to solve the pain points in customer reconciliation, partner settlement, salesperson assessment and bonus commission, etc. and improve settlement efficiency after launch; promotion and application of MRP have been completed in 23 factories, with an automatic conversion rate of 87%; and APS has been rolled out to 25 factories for promotion in order distribution and production scheduling, with the automatic order distribution rate reaching 90% and the automatic scheduling rate reaching 70%; the digitalisation of warehousing and logistics system has been reconstructed to complete the pilot construction; the General Planning of Oriental Yuhong for Smart Factories has been developed, specifying the requirements of the smart factories in terms of automation of



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 launched in Tangshan factory, becoming the industry's first benchmark for visualisation, 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 and industry indicators. In 2022, China's domestic economy and per capita 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 industry's role as a "ballast stone," with a 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 housing units' construction and organization began across the country. Throughout the year, 52,500 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 material prices. However, the implementation of the “General Code for Waterproofing of Building and Municipal Engineering” (GB 55030-2022) 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 development. Anhui Province released the “Key Points of Building Energy Conservation and Technology Work in 2022”, which mandates that the proportion of new green construction in the 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 more than 21% of new completed construction. Shandong Province issued the “Notice on Several Measures to Promote Green Development of Urban and Rural Construction”, which outlines regulations for urban agglomeration green development, green low-carbon cities, green energy development, and green infrastructure upgrades. Chongqing Municipality released the “14th Five-Year Plan for Green Buildings in Chongqing (2021-2025)”, aiming for green buildings to account for 100% of new urban construction by the end of 2025, with the application proportion of green building materials in new construction exceeding 70%. Hangzhou City issued the “Implementation 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 above actively facilitate construction material enterprises’ comprehensive implementation of the 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 “Opinions on Improving the System and Mechanism and Policy Measures for Energy Green and Low-Carbon Transformation”, which emphasizes that during the 14th Five-Year Plan period, a basic system framework for promoting green and low-carbon development of energy should be established. This framework should be led by the “dual control” of energy consumption and non-fossil fuel energy target system. The Ministry of Housing and Urban-Rural Development issued the “14th Five-Year Plan for Housing and Urban-Rural Construction Science and Technology Development”, which focuses on the key tasks of housing and urban-rural construction during the

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 Council issued the “14th Five-Year Plan for Comprehensive Energy Conservation and Emission Reduction Work,” proposing that by 2025, the national energy consumption per unit of GDP should be reduced by 13.5% compared to 2020, and total energy consumption should be reasonably controlled. The Ministry of Housing and Urban-Rural Development issued the “Notice of the 14th Five-Year Plan for Building Energy Conservation and Green Building Development”, stating that 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 Technology and five other departments jointly issued the “Intelligent Photovoltaic Industry Innovation and Development Action Plan (2021-2025)”, which calls for enhancing the industry’s 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 the photovoltaic industry. Beijing city issued the “Notice on the Issuance of the ‘Beijing Action Plan for Deepening Pollution Prevention and Control in 2022’”, proposing to strive for a cumulative promotion of 1.5 million square meters of ultra-low energy consumption buildings and the completion of 7.5 million square meters of energy-saving and green transformation for non-energy-saving public buildings.

With the issuance of policies related to peak carbon emissions and carbon neutrality, high-energy-output and environmentally friendly benchmark enterprises in the construction materials industry will benefit, while outdated, non-energy-saving, and non-environmentally friendly enterprises will be phased out more quickly. On the other hand, the introduction of photovoltaic, energy-saving, and low-carbon policies may expand the market space for related products and system services in the industry chain. Higher requirements will also be put forward for the quality

of waterproof materials that match the durability of photovoltaics.

(3) Urban Construction

The “Government Work Report” clearly emphasizes the continuous promotion of people-oriented new urbanization, accelerating the implementation of major projects during the “14th Five-Year Plan” period, and carrying out urban renewal initiatives. The National Development and Reform Commission released the “2022 Key Tasks for New Urbanization and Urban-Rural Integration Development”, proposing continuous optimization of urbanization spatial layout and forms, accelerating new urban construction, improving urban governance, and promoting urban-rural integration development. The document specifies provisions for promoting urbanization construction, urban renewal, strengthening housing supply security, and encouraging green and low-carbon development. The Central Propaganda Department and 17 other departments jointly issued the “Opinions on Carrying out Pilot Projects for Youth Development-Oriented Cities”, introducing the conceptual connotation of youth development-oriented cities. By 2035, the construction of youth development-oriented cities will become a conscious action for all regions to transform their development mode and improve urban quality. The Ministry of Housing and Urban-Rural Development and three other departments jointly issued the “Notice on Further Clarifying the Requirements for the Renovation of Old Urban Communities”, emphasizing the bottom-line requirements and ensuring that people’s livelihood projects are satisfactory to the public. It also clarifies the evaluation criteria for the renovation of old urban communities. Furthermore, Beijing, Chongqing, Jiangsu, Qingdao, and other regions have introduced policies and project layouts related to urban renewal and urban construction. These initiatives provide provisions for infrastructure and municipal facility construction, the refurbishment of old communities and shantytowns, and the optimization of urban space. Such measures offer institutional guarantees for sustainable urban development.

(4) Rural Revitalization

The “Opinions on Key Tasks for Comprehensive Promotion of Rural Revitalization in 2023” issued by the Central Committee of the Communist Party of China and the State Council emphasize the strengthening of agricultural infrastructure construction, promotion of high-quality development of rural industries, and steady advancement of the construction of livable, business-friendly, and

beautiful countryside to comprehensively promote rural revitalization. Additionally, six departments, including the Ministry of Industry and Information Technology, have jointly released the “Notice on Launching the 2023 Campaign of Green Building Materials Going to the Countryside”, calling for an increase in the variety of green building materials products, improved product quality, establishment of green building material brand influence, promotion of new construction methods, and application of green building materials to support the construction of beautiful countryside and promote rural industrial revitalization.

(5) Vocational Education

The “Opinions on Deepening the Reform of Modern Vocational Education System Construction” issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council aim to improve the quality, adaptability, and attractiveness of vocational education effectively. This will involve cultivating high-quality technical and skilled talents, skilled craftsmen, and national craftsmen. The document emphasizes education promoting production, production assisting education, integration of production and education, and collaboration between industry and education. It also aims to extend the education chain, serve the industrial chain, support the supply chain, create talent chains, enhance the value chain, and promote the formation of a modern vocational education structure and regional layout that matches market demand and the industrial structure. Furthermore, the “Notice on Launching the Training Program for 10,000 ‘Rural Construction Leading Artisans’” jointly issued by the Ministry of Housing and Urban-Rural Development and other departments focus on training ten thousand “Rural Construction Leading Craftsmen” by cultivating rural construction craftsmen and promoting the improvement of vocational skills and the comprehensive quality of rural construction craftsmen.

(6) Standard Improvement

The “General Code for Waterproofing of Building and Municipal Engineering” (GB55030-2022) was officially released and implemented on 1 April, 2023, during the reporting period. The “General Code” enhances the working life of engineering waterproof design by clarifying and redefining the waterproof grade from two dimensions: engineering waterproof category and usage environment category. By strengthening the design, construction, quality inspection, and operation

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 domestic construction waterproofing industry features “many small firms in a large industry”. 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.

(III) Business Plan for 2023

Based on the analysis of the macro-economy and the Company's core competitive edges, as well as its development strategy, in 2023, the Company will focus on "pursue faster growth unremittingly, evolving fiercely, and making the impossible come true" in its operation. To be specific, the business plan for 2023 is as follows:

(1) Going All Out to Develop Partnerships for Mutual Creation, Mutual Sharing, and Mutual Benefit

The Company will implement the "platform + creator" operational and management model, upgrade the partnership system, and fully develop various types of partners. Partner channel sales will become the Company's primary sales model. The Company will prioritize partners, empower their development, and continuously cultivate partners' operational management capabilities, business expansion capabilities, and construction service capabilities. It will focus on implementing and refining various "partnership" initiatives, realizing co-creation, co-sharing, and mutual success.

(2) Enhancing Business Quality through Prioritized Risk Control and Improved Credit



Management

The Company will implement a list-based control system, creating a connected and closed-loop management process for credit control, contracts, accounts receivable, collections, and litigation. It will upgrade credit policies and project penetration management, firmly enforce zero-tolerance control of due accounts receivable and total accounts receivable control, monitor project performance in real-time, continuously improve cash flow, and ensure financial security. The Company will enhance contract management, reinforce process control, upgrade collection efforts, and comprehensively establish a professional and persistent collections team.

(3) Embracing Technological Innovation Leadership and Fostering Core Competitive Advantages

The Company will increase R&D investment, improve R&D collaboration models, such as cross-company cooperation, industry-university collaboration, and cooperation with suppliers. It will strengthen the development of core raw materials, product systems, application technologies, and intelligent construction, continuously enhancing the Company's core competitiveness. It will continue to improve the durability research of waterproof materials and systems; enhance R&D efficiency, respond quickly to market demand, support the Company's development, especially in C-end and overseas businesses; leverage the national key laboratory platform, and expand core technology and upstream materials research through independent innovation and external cooperation.

(4) Attaining Comprehensive Market Leadership through Prioritizing Civil Construction Materials

The Company will seize the strategic opportunities for the development of civil building materials, focusing on waterproofing and moisture-proofing systems, tile fitting and grouting systems, and new categories (wall auxiliary materials, adhesives, tube materials, etc.) as core elements. The Company will strengthen channel cultivation and support, enhance channel construction quality and efficiency, foster high-quality development, and increase brand coverage. Meanwhile, it will build specialty store retail strength through products, systems, shopping guides, membership, and services.

(5) Strengthening the Leading Advantage in Construction Waterproofing



The Company will fully engage in developing partnerships, creating a leading edge in distribution channels, and further increasing market share through measures such as fostering partnerships, expanding non-real estate business, and raising the proportion of new products. We will upgrade our product strategy, enhance profitability, focus on the core waterproofing business, develop specialized and innovative products, and optimize product structures. We will also upgrade channel policies, cultivate partnerships meticulously, build support platforms for partners, and empower their development. By adhering to a results-oriented approach, we will strengthen our market presence, standardize market order, and create a market team capable of facing challenges head-on for the benefit of our business and partners.

(6) Implementing and Upgrading the Business Model to Foster the Growth of Sand Powder Technology Group

The Company will implement and upgrade the integrated operation of the sand powder factory, focusing on R&D, production, supply, marketing, and service. This will further strengthen and optimize localized integrated operations. We will maintain cost leadership, optimize production layout, and create a cost leadership advantage through technology R&D, product design, production equipment, and processes, forming a competitive edge in product cost. Moreover, we will further reinforce our supply chain management.

(7) Advancing Globalization and Developing Overseas Markets

The Company will concentrate on Southeast Asia and the Middle East market, actively exploring pathways for overseas market development and increasing exports. We will establish overseas offices and subsidiaries in select countries to enable localized operations, and improve localized, differentiated, and customized product strategies in key countries and regions. Furthermore, we will promote the establishment of overseas warehousing, overseas investment mergers and acquisitions, and overseas production strategies. We will persistently pursue international, professional, and localized talent strategies, and achieve diversified business models, such as overseas projects, trade, and retail.

(8) Accelerating Technological Breakthroughs and Continuing to Expand Cost Leadership Advantages as a Manufacturing Group

The Company will reduce costs through measures like enhancing procurement professionalism,



collaborating with suppliers, broadening benchmark dimensions, strategically planning forward warehouses, promoting in-house logistics, improving information management, and strengthening lean control. We will carry out lean improvement activities by deepening automation operations, promoting standardized production lines and accelerating their implementation, and providing internal lean production talent training and certification to improve labor efficiency. Additionally, we will expedite product upgrade iterations, focusing on customized, regional, and differentiated product innovation while enhancing product environmental performance, extending service life, and expanding application areas.

(9) Upholding Elite Management and Continuously Improving Corporate Labor Efficiency

The Company will persistently upgrade the “platform + creator” model, adhere to elite management, establish a red-line control mechanism, continuously upgrade talents, and decisively eliminate underperforming personnel in a timely manner. It will strengthen talent development, maintain top management’s focus on human resources, and consistently enhance labor efficiency.