

Asset Strategy Aimed at Compounding Sustainable EPS (2)



Nippon Paint China (NIPSEA China)
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How Shareholder Value Is Maximized

» See pages 3-4.



China Business Strategy

— Establishing dominant No. 1 position by leveraging our brand strengths in various dimensions

Analysis of the decorative paints market landscape

Home renovation boosting TUC market

Real estate remains pivotal to China's economy. As restrictive policies ease, the real estate market is set to usher in a relaxed environment, leading to growing demand for aesthetic living spaces due to rising income. New growth areas are re-renovation, partial renovation, and home renovation. As of November 2023, China's housing stock, accounting for about 40% of home decoration, stands at 13.4 billion square meters, growing steadily at 5-6%. This expansion suggests a future increase in repainting demand.

Color and personalization fueling Tier 1-2 cities

As of 2023, 72.6% of China's home decoration consumers are located in economically prosperous Tier 1 and 2 cities. These areas, with high overall economic development and the post-90s and post-95s generations as key consumers, are seeing increased demand for color and personalization. The main competitors in Tier 1 and 2 cities are a major brand and several art paint brands. The major brand, known for its high visibility, targets young consumers through strategic marketing, while the art paint brands are focused on innovation and price competition to vie for market share.

Great market share expansion potential in Tier 3-6 cities

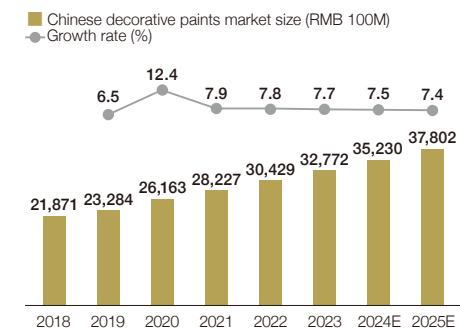
As of 2023, around 27% of home improvement users are found in China's less economically developed Tier 3 to 6 cities, which

consist largely of towns and counties. With increasing urbanization and rising per-capita consumption, these under-served areas, particularly Tier 5 and 6 cities, present significant growth potential. Our primary competitors in Tier 3 to 6 cities are a major paint manufacturer and small local ones. The major player invests heavily in aggressive sales promotion and store expansion. Local small players cater to local customers, offering competitive prices and fostering close relationships.

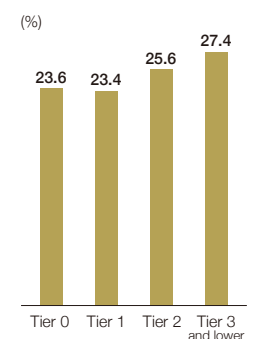
Distribution by tier (2024E)

Distribution by tier	Population (10,000 people)	GDP (RMB million)
Tier 1-2 cities	58,161 (42%)	459,216 (47%)
Tier 3-6 cities	61,942 (45%)	282,978 (29%)
Nationwide	138,034 (100%)	974,975 (100%)

Chinese decorative paints market growth



Breakdown of users by tier



Source: iResearch 2023 China Home Decoration New Trend Insight Report

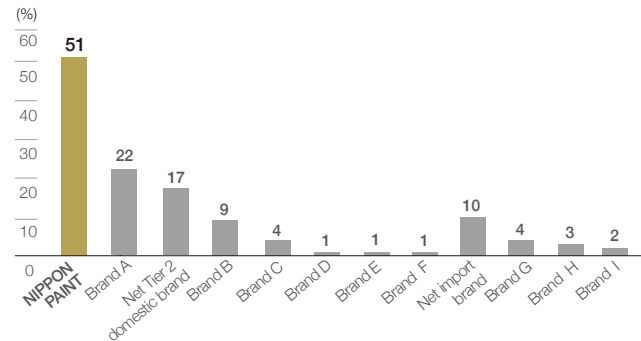
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EPS compounding strategy that leverages growth drivers

Leveraging top-of-mind brands and training painters

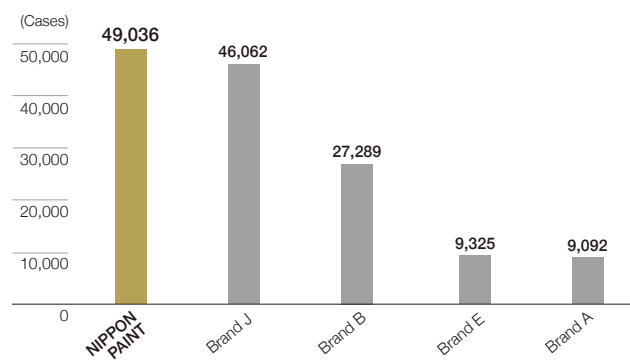
Nippon Paint China entered the Chinese market in 1992 and has since been a pioneer in brand building in the Chinese paint industry. It has always ranked first in brand awareness in the Chinese paint market with a Top of Mind rating of over 50% among consumers.

Top of mind rating



Source: UA Report 2023, NP China

Share of voice

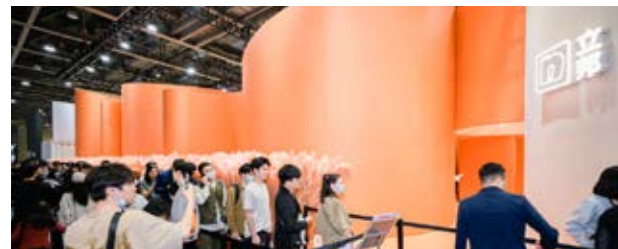


Source: All Media, China

In 2023, Nippon Paint China's Magic Paint became the top independently searched brand in the texture paint category on platforms such as Baidu, Tmall, Douyin, and Xiaohongshu. It attracts more than 7,000 customers monthly through live broadcasts and other forms. These customers are automatically distributed to the nearest dealers for follow-up and service through Nippon Paint China's digital intelligent clue center, creating more business opportunities for dealers.

Nippon Paint China has 16 training and certification centers in China, which have trained more than 400,000 painters over the past 14 years. Nippon Paint China has become the first foreign-funded enterprise in China to obtain a "Private School Operating License," providing professional competency level certification for interior and exterior wall painting construction personnel. At the same time, the "Nippon Paint Club" has over 1.4 million members through points, training, certification and other operations.

Additionally, over the past two years, Nippon Paint China has continued to expand its presence within the Chinese designer community through the "Dream Home Makeover" video series, the "Future Star" Young Designer Competition, and Magic Paint's "Light and Shadow Wonderland" series of exhibitions at Shanghai and Guangzhou Design Weeks. Through these events, we are enhancing our influence on high-end consumers with premium decoration needs.



Brand influence—Nippon Paint China's booth

Empowering Color Strategy through CCM machines

1. TUC's Color Strategy focuses on seizing the Chinese computerized color matching (CCM) market and customers' color mentality.
2. Starting from 2020, we have increased investment in CCM machines, as well as 1,988 color cards and other color tools in the distribution market, and cooperate with Professor Song Jianmin of the China Academy of Art to release annual color trend colors; at the same time, we utilize the community, Xiaohongshu and other online mainstream media platforms to promote Nippon Paint China's popular colors.
3. Starting from 2024, we plan to add 8,000-10,000 CCM units every year. For distribution stores that achieve a certain sales volume, we will provide CCM machines free of charge.



Nippon Paint China's lifestyle store



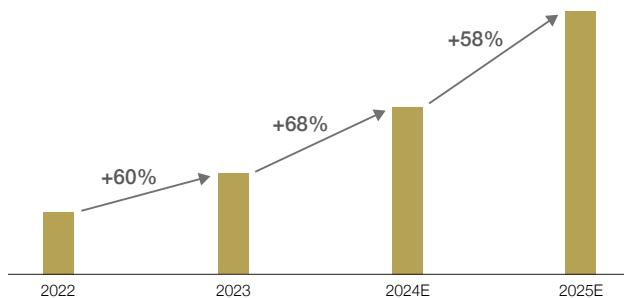
CCM machine

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Our success with Asset Light strategy

To quickly occupy the market and enhance product competitiveness, Nippon Paint China introduced the "OEM" outsourcing production model on the basis of self-production. In areas with mineral resources, we select OEM manufacturers with resource advantages, production capacity, and logistics distribution capabilities. This strategy allows Nippon Paint China to become asset-light, meet demands for rapid growth in production capacity, and significantly reduce the cost of dry powder mortar products, laying the foundation for the business group to achieve rapid growth and seize the market. By the end of 2023, Nippon Paint China had successfully developed 62 suppliers, distributed in 58 county-level cities in 24 provinces. In addition to our 33 self-owned factories, Nippon Paint China has a total of 95 factories in China, forming a robust supply chain and production network for base materials, yielding remarkable results.

Nippon Paint China's dry mortar production capacity



Overall output achieved in 2023 - by category

	Putty powder	Gypsum plastering	Tile grout
No.1	NIPPON PAINT	NIPPON PAINT	Brand D
No.2	Brand A	Brand C	Brand E
No.3	Brand B	Brand B	NIPPON PAINT

* Internal estimates

Our human resource strategy

1. The competency of management personnel is demonstrated in: result-oriented, prioritization of growth, analytical insight, leadership motivation, and full cooperation; four key positions that will significantly impact the future development of Nippon Paint China (TUB Regional Director, TUC Regional Director Supervisors, Factory Directors, PDT Managers) also have their own competency models, including business execution ability, team leadership, and self-management skills.
2. For management positions, we use competency as the cornerstone and continue to carry out the "selection and retention" of cadres in corresponding positions. At the same time, we conduct echelon inventory every year, target key and high-potential talents, and organize systematic empowerment training and job rotation based on the competencies of higher positions based on the model to accelerate the growth of successors.

3. In terms of employee development, we implement "how to fight, how to train," and design a targeted training system based on job standards and combined with Nippon Paint China's actual combat scenarios. For newly recruited front-line sales, each business group combines differentiated needs to carry out highly directional professional training such as "Shooting Training" and "Sail Power" to accelerate the professionalism of new employees from various aspects such as deep industry insights, product knowledge, and sales skills, thereby fostering their ability growth. For front-line workers and technicians, especially for positions such as color creation and color mixing, we will strengthen certification-based employment and continue to carry out various labor competitions such as color creation competitions to promote the continuous improvement of the professional capabilities of all employees.



Frontline talent building



TUC talent building



Talent development for working level



TUB talent building