

Strategy by Asset

Feature Article (2): High Growth Potential of the China Business

How Shareholder Value Is Maximized

▶ See page 5.



What are the driving forces that keep NIPSEA in the leading position in the decorative paints market with strong growth potential?

Since its expansion into the Chinese market in 1992, NIPSEA has remained the leading company in the dynamically changing Chinese market. NIPSEA delivered resilient growth despite the challenging business environment during Medium-Term Plan (FY2021-2023) period, serving as the main growth driver of Nippon Paint Group. This section guides the reader through the competitive advantages and growth strategies that will allow the company to remain the leader in the decorative paints market in China with enormous growth opportunities.

Resources built up in China



Pursuing optimization and transformation of organizations

Nippon Paint China focuses on business success and continuously carries out organizational optimization and transformation. Based on the design of front, middle, and back offices, it streamlines and optimizes various business groups and headquarter functions.

Nippon Paint China has established IPMT/PDT organizations to facilitate the management of the entire product lifecycle.



Advanced production system

The new factory construction follows the principles of “smart manufacturing” and “Industry 4.0,” aiming to create a digitally intelligent, green, and environmentally friendly benchmark factory. The fully automated latex paint production line utilizes a closed pipeline system for material transportation, ensuring a fully automated, information-driven, green and eco-friendly, safe, and clean production process.

It significantly reduces manual labor, enhances production efficiency, and meets the requirements of Industry 4.0.



Dominant distribution network

In 2023, TUC will continue to expand its distribution network, allocate more manpower, collaborate with distributors, seize high-quality distribution store resources, and simultaneously enhance the quality of distribution stores to increase their affinity.

The number of Distributor Stores nationwide was 154,000 as of end-May 2023, an increase of 51,000 compared to the end of 2022. The number of Exclusive Stores increased by 10,000 to 42,000 during the same period, with over 10,000 equipped with Computerized Color Matching (CCM) machines.



High brand strength

In 1992, NIPSEA officially entered China and has since grown into a renowned brand in the Chinese paint and coatings industry. NIPSEA China has continually been granted numerous brand awards including the China Brand Indexes, which is a testament of the trust and confidence that consumers have in us.

We will continue to invest in brand building and reinforcement sparing no expense with a focus on enhancing the visibility and evaluation of the LiBang brand.



Market Overview

The Current Situation in the China Market

The China market offers greater opportunities than advanced markets due to new demand and with market segments created one after another

In the first quarter of 2023, China's GDP grew by 4.5% year on year, surpassing the expected value of 4% and accelerating by 1.6 pp compared to the previous quarter. Consumer confidence gradually recovered, with a year-on-year increase of 10.6% in total retail sales of consumer goods in March.

National fixed-asset investment (excluding rural households) in 2023 1Q reached RMB10.7 trillion, showing 5.1% year-on-year growth, maintaining the same level as the previous year. Infrastructure investment increased by 8.8% year on year, although slightly lower by 0.2% compared to January-February 2022, it still maintained a relatively fast growth rate. High-tech industry investment continued to grow at a high rate, with a year-on-year increase of 15.1%, including 16.2% growth in high-tech manufacturing industry investment.

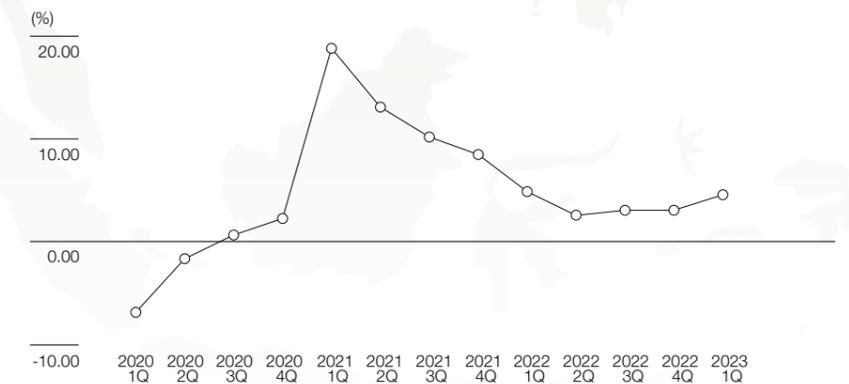
Turning to the conditions in the real estate market, in 2022 China's real estate development investment recorded a year-on-year decline for the first time, with a decrease of 10%. In the first quarter of 2023, the year-on-year trend of decline in real estate development investment continued, although the overall decline narrowed. In terms of sales area of commercial housing, it has been on a downward trend for 16 consecutive months since January 2022. The newly started

construction area has been declining for 22 consecutive months since July 2021. Overall, the momentum for recovery remains insufficient.

Although China's real estate market showed a decline in 2022, the forecasts into 2023 and 2024 are still optimistic. In fact, overseas forecasts institutions have high expectations for

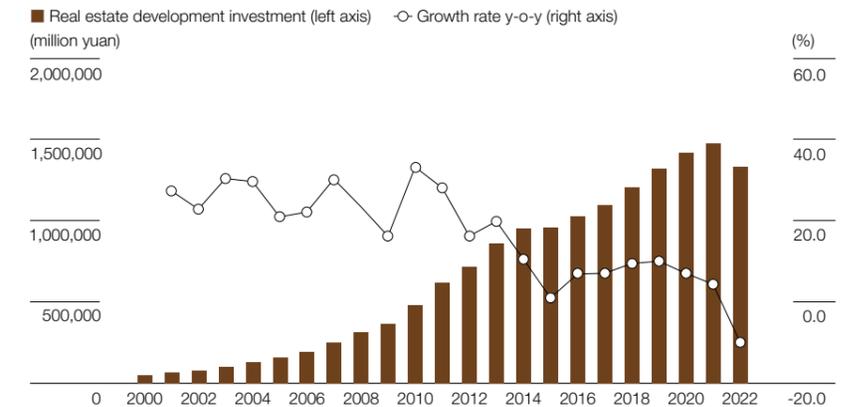
future economic growth potential in China and projects 5% GDP growth rate for both 2023 and 2024.

GDP growth rate



Source: National Bureau of Statistics of China

Real estate development investment



Source: National Bureau of Statistics of China

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Rapid expansion of repainting market driven by arrival of stock housing era

In the future, the Chinese real estate market is expected to exhibit the following trends:

1) The real estate market will transition from a period of high demand to a phase of basic supply-demand balance. The era of rapid development will come to an end, and the scale of new housing will gradually reach its peak, marking an overall shift towards the era of stock housing. The seventh national census shows that the number of per capita housing units in China have exceeded 1. In 2022, the population decreased by 850,000 compared to the previous year-end, marking the first population decline in the past 60 years. The number of new urban residents in 2022 was 6.46 million, nearly half of the previous year's increase of 12.03 million, reaching a new low in the

past 42 years. The peak of population growth also signifies the arrival of the era of stock housing in China. After the decline of the real estate dividend, the contribution of new housing to the rapid development of the real estate sector will gradually shift towards the renovation cycle of existing properties. Assuming a renovation cycle of 15 years, it is estimated that by 2030, there will be approximately 9.27 million units of stock housing, accounting for about 49% of total consumption, representing an increase of approximately 28% compared to 2022.

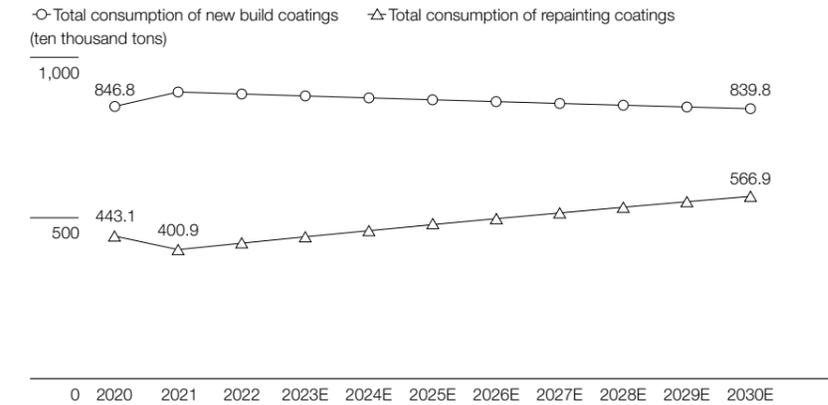
2) The "20th National Congress of the Communist Party of China (二十大) Report" emphasizes the positioning of housing as a place for living, not for speculation. Efforts will be made to accelerate the establishment of a

housing system that features multiple entities supplying housing, multiple channels ensuring affordability, and a balanced approach between renting and purchasing. In the future, the rental market will gradually become an important component of the real estate market, and the "rent before purchasing" model will become a common way of homeownership. Under policy incentives, affordable housing, urban renewal, and the renovation of aged housing estates will experience development opportunities. In terms of urban renewal, it is estimated that during the entire 14th Five-Year Plan period, urban renewal will bring about a cumulative investment of RMB18 trillion, with an average annual investment of RMB3.6 trillion.

The scale of new housing has peaked, and China's real estate market has entered the era of stock housing. According to estimates by domestic securities companies, assuming a decline of around 2% per year in the urban real estate construction and completion area from 2022 to 2030, while maintaining steady growth in other construction areas, and under the assumption of unchanged repainting cycles and repainting ratios, the total demand for architectural coatings is estimated to be around 14.07 million tons by 2030, corresponding to a market space of about RMB123.8 billion. Among them, the demand for new construction and repainting is approximately 8.4 million tons and 5.67 million tons, respectively, with the repainting demand accounting for about 40%, becoming the main driving force

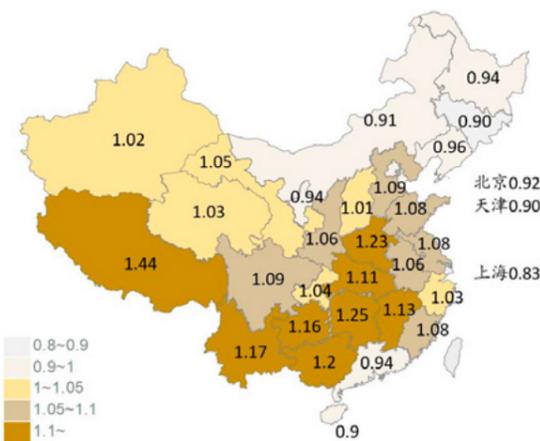
behind the demand for architectural coatings. With the Chinese government's increasing requirements for building usage and comprehensive energy efficiency, the frequency of repainting is expected to increase, leading to further expansion of the overall repainting demand.

Total consumption of new build and repainting coatings



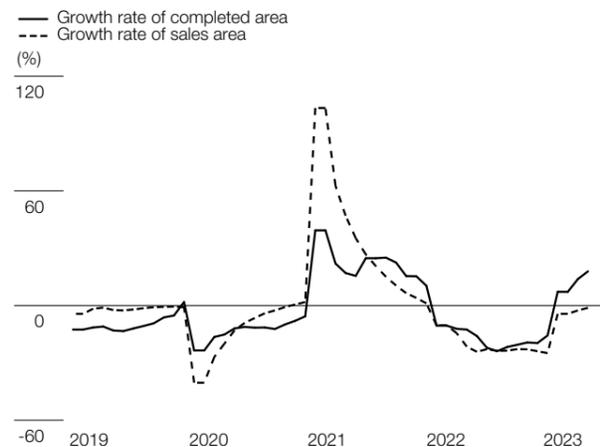
Source: Source: Huaxi Securities "Special Topic on Architectural Coatings 1: Domestic Architectural Coatings Market Exceeds 100 Billion, Repainting Supports Long-term Space Expansion."

The number of per capita housing units in urban areas by province (city) in 2020



Source: Debang Securities "Embracing the Era of Existing Housing: China's Housing Supply and Demand in the Next Ten Years."

Commercial residential building development and sales



Source: National Bureau of Statistics of China

Our Strategy

Growth Strategy to Stay in the Leading Position

TUC (Trade Use Consumer)

Pursuing market share gains in urban areas and rural cities by leveraging brand strength

Overview of the TUC market

TUC covers over 2,000 cities in China, offering a wide range of products for various usage scenarios and consumer segments. The offline distribution channels primarily involve recruiting distributors, expanding distribution stores and exclusive stores, and increasing the deployment of CCM machines. Simultaneously, there is a

focus on accelerating the expansion of business in the public and home decoration sectors to seize market share.

The online channels maintain a continuous presence on mainstream e-commerce platforms such as Tmall, JD.com, and Douyin.

The TUC revenue grew 10% YoY in 2022, continuing on a strong growth track achieved in 2021.



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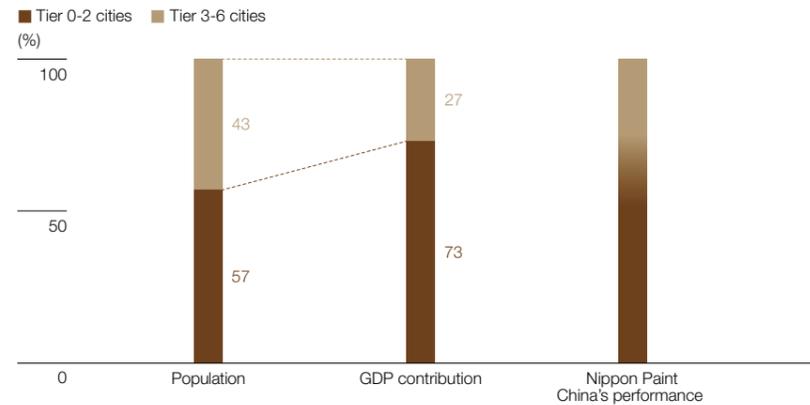
Characteristics and competitive landscape of Tier 0 and Tier 1-2 cities and Nippon Paint China's market position

Tier 0 and Tier 1-2 cities are primarily located in provincial capitals and economically prosperous areas in China. We have a couple of strong competitors in these areas. In Tier 0 and Tier 1-2 cities, Nippon Paint China

assigns at least one representative to each city to assist customers in channel optimization and comprehensive product management, while strengthening the development efforts in the home decoration and commercial decoration markets.

In 2022, Nippon Paint China's market share in the paint segment in Tier 0 and Tier 1-2 cities exceeded 50% (according to the 2022 Consumer UA Survey).

The comparison between urban and regional cities



Source: Company's estimates

Aiming for market share gains in Tier 3-6 cities

Tier 3-6 cities in China mainly refer to towns and county-level areas with relatively lower economic levels. They are primarily targeted by local paint manufacturers and other domestic second-tier brands. To tackle the Tier 3-6 market, the main strategies are as follows:

Channel expansion: Enhance the product line by incorporating existing TUC products and introducing certain regional TUB products.

Organizational and personnel arrangements: Foster collaboration between Nippon Paint personnel and Pioneer; and doubling personnel to ensure comprehensive synergy.

Store expansion in towns: Accelerate market development in rural areas and penetrate the township market.

RMB102.1 bn, with an annual growth rate of about 5%. Our market share of TUB is 8%.

Under the national economic structural adjustment and real estate policy regulation, the capacity of the real estate market is declining. However, commercial and residential real estate still accounts for about 50% of the total market. The government is increasing investment in affordable housing, infrastructure, and industrial sectors outside of real estate. Overall, the total market capacity of TUB remains stable with a slight increase, while the real estate sector is declining, and non-real estate channels are on the rise.

Top 100 real estate developers, represented by Vanke, continue to reduce land acquisitions, resulting in a significant decrease in new construction projects. Construction progress is slow, leading to longer project construction and delivery cycles.

From January to April 2023, national real estate development investment amounted to RMB3.55 trillion, a year-on-year decrease of 6.2%. The newly started construction area was 3.12 million square meters, a year-on-year decrease of 21.2%.

The newly started construction area for residential buildings was 2.29 million square meters, a year-on-year decrease

of 20.6%.

In the field of urban renewal, the market is largely driven by policy orientation, with regional finances playing a major role. The government-led projects have a strong reliance on government relationships (pure relationship-based market). In early 2023, the national government debt ratio was high, resulting in slow progress in the urban renewal market. In terms of market competition, there is a lack of strong brand awareness in this field, and the use of brands is relatively fragmented. The competition focus is concentrated on government-enterprise relationships.

Ensuring the capturing of repainting demand

Empowerment tool development

- Focus on key scenarios, such as integrated solution packages for the renovation of old communities, integrated solution packages for industrial renovation, and outsourced testing service packages.

Build channel competitiveness

- Focus on fifteen key cities, develop and promote business models for urban renewal, and launch the "Livability City" brand.

Our actions for TUB

1. Focus on developing six major channel businesses: commercial and residential, affordable housing, industrial, infrastructure, healthcare, and education.
2. Focus on three major business groups: strategic clients, industry clients, and partners.
3. Continuously promote the regionalization of urban operations system.

1. Six major channel businesses: Commercial and residential: Focus on developing and deepening relationships with high-quality clients, contributing to sales revenue and profit (central state-owned enterprises, top 30 companies, high-quality private enterprises).

Affordable housing: Expand government connections and establish relationships with key agencies in the affordable housing sector; adapt products for the affordable housing channel; develop partnerships in the affordable housing sector.

Non-residential: Target clients in non-residential sectors such as top 500 industrial companies, key listed companies, central state-owned enterprises, urban investment and construction, etc., and establish collaborative partnerships.

2. Three major business groups: Strategic clients: Aim for a cooperation rate of 65% with central state-owned enterprises clients and 86% with top 30 real estate clients (excluding high-risk clients).

Industry clients: Target the top 500 industrial companies and identify major infrastructure and education projects according to the market map. Promote brand integration with target clients and facilitate project collaboration with industry partners.

Partners: Establish a three-dimensional and diversified partnership system across multiple channels and categories, guided by the market map and urban operations objectives.

3. Regionalized urban operations:

- Conduct in-depth market insights analysis, identify market opportunities, create market maps, and implement targeted strategies. Develop precise and clear targets for cities, channels, and products based on market insights.
- Identify target customers in cities, channels, and product categories according to the market map and develop corresponding partnerships.
- Drive urban operations through project marketing and channel marketing strategies.

TUB (Trade Use Business)

Pursuing market share gains through capturing new demand by considering market conditions and customers' situations

Overview and competitive landscape in the TUB market

We are pursuing more growth in the TUB business based on the six major business scenarios: (1) Multi-scene healthy interior solution; (2) One-stop delivery solution for car park scene; (3) One-stop delivery solution for coating and maintenance materials; (4) Integrated low-carbon prefabricated solution; (5) Industrial building system solution; and (6) One-stop coating solution for urban renewal and transformation. Based on these scenarios, the market capacity of TUB in 2022 reached

The situations in TUB segment

1. According to the current operation of TUB in the six major business scenarios, the market capacity in 2023 is estimated to be RMB107.1 bn. Among them, the commercial and residential channel is RMB53.9 bn, the affordable housing channel is RMB11.6 bn, the industrial channel is RMB18.8 bn, and other comprehensive channels are RMB23.2 bn.
2. The market capacity of 38 central cities is RMB32.5 bn, the market capacity of 91 secondary central cities is RMB39.7 bn, and the market capacity of 211 peripheral cities is RMB35.3 bn.
3. In terms of regions, the ongoing projects in the Yangtze River Delta and the Pearl River Delta cities are more than other regional cities, such as Jiangsu, Zhejiang, Shanghai, Guangdong, and other provinces.
4. From the perspectives of market capacity, new construction projects, and the capital adequacy rate of development enterprises, the southern region is better than the northern region, and the eastern region is better than the western region.

