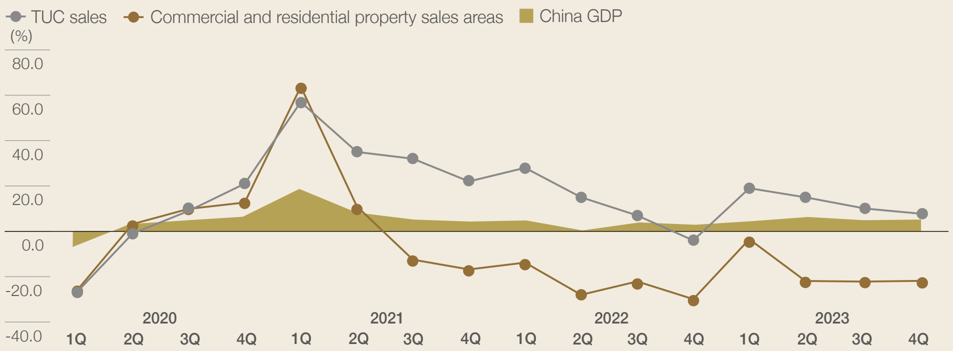
Four Reasons Why Our Performance Does Not Necessarily Correlate with Chinese Macroeconomic Indicators

Our stock price tends to be significantly influenced by news flow from China, more so than by our actual performance results. Our analysis suggests that the capital market participants might be overly focused on Chinese macroeconomic indicators. While we do acknowledge a certain correlation between our performance and Chinese macroeconomic indicators, we believe that these factors are not the sole determinants of our performance due to the following four reasons.

Reason 1 TUC revenue growth has been markedly outpacing the growth in commercial and residential property sales areas

Tier 0 and 1-2 cities, where our TUC business has a dominant No.1 position, have a higher proportion of commercial and residential property sales areas compared to Tier 3-6 cities. These cities are also characterized by faster market recovery. Consequently, the growth rate of TUC tends to be higher than that of property sales areas nationwide. The high revenue growth in the TUC business can also be attributed to factors such as NIPSEA China's extensive distribution networks, the large number of Computerized Color Matching (CCM) machines installed, high brand awareness and quality. Factors such as the arrival of the era of stock housing and our market share gains in Tier 3-6 cities also contribute to a growth rate that exceeds the general macroeconomic indicators.

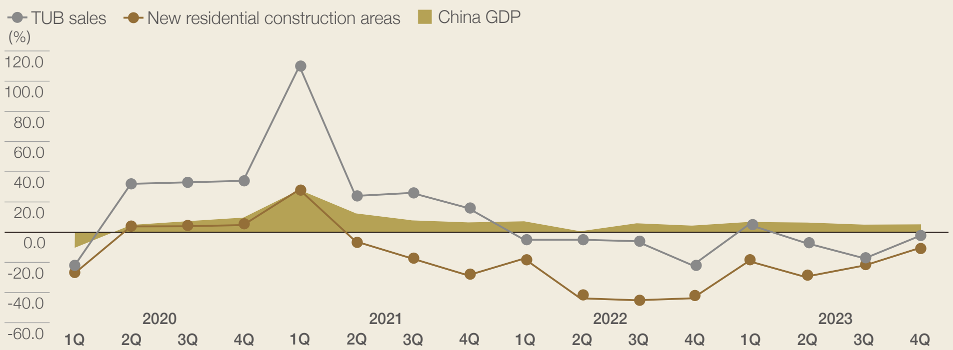
TUC sales trends (QoQ)



Reason 2 TUB revenue growth has been outpacing the growth in new residential construction areas

Since March 2020, our TUB revenue growth has constantly been outpacing growth of new residential construction areas. This strong performance is attributable to: (1) working with financially stronger real estate developers, (2) growth contribution from non-real estate developers, e.g., healthcare, industrial, infrastructure, as well as interior decoration companies and contractors, (3) pushing the adjacencies area, such as substrates and construction chemicals (CC). We expect that the TUB business will remain on a steady growth track due to the arrival of the era of stock housing and by focusing on the development of key channel businesses.

TUB sales trends (QoQ)



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Reason 3 TUC's competitive advantage and its significant contribution to NIPSEA China's sustainable growth and profitability

NIPSEA China's overall revenue growth in 2023 may be perceived as weaker. This is mainly due to the sluggish performance of the TUB and automotive businesses against the overall weak economic and property outlook in China. In contrast, the TUC business achieved growth that exceeded both the market and our competitors. In the midst of a challenging business environment, we secured a higher operating profit margin in China than our key local competitors. This is primarily due to the strong and highly profitable TUC sales with the TUC segment representing approximately 70% of overall decorative paints sales in China.

The ability of TUC to maintain high profitability is not solely due to its B2C business model. Other contributing factors include: (1) the ability to control pricing, based on the strong brand power we have built over the years in this B2C brand business, (2) the creation of demand and improvement in margin through the expansion of CCM deployment, (3) our "Asset Light Strategy," (4) The sheer size of the enlarged Group that allows us to leverage our economies of scale and tap into resources spanning from purchasing to marketing. We are optimistic that TUC's medium-term growth forecast will continue to surpass the market growth. Looking ahead, NIPSEA China will steadfastly pursue sustainable growth while preserving the operating profit margin.

NIPSEA China 2023 results

Revenue growth (YoY)	Consolidated*1	+7.1%
	Automotive*1	+0.6%
	TUC*2	+13%
	TUB*2	-7%
OP margin*1 (consolidated)		12.5%
TUC revenue/China decorative revenue*2		c.70%

*1 Tanshin basis
*2 In local currency

»» P41 Medium-Term Strategy (Released in April 2024)
»» P54 China Business Strategy

Reason 4 Establishing a regional and business portfolio not heavily reliant on China

As Asset Assembler, we boast a well-diversified regional and business portfolio. While China is a significant asset for us, it accounts for 33% of our overall consolidated revenue—a contrast to local entrenched competitors who are heavily dependent on a single geographical market. Furthermore, our operations in Asia Except China continue to achieve sales growth and an operating profit margin that outpace those from our China operations.

Comparison of 2023 results (Tanshin basis): NIPSEA China vs. NIPSEA Except China

		NIPSEA China	NIPSEA Except China
Dependence on the region	Revenue	33%	20%
	OP	36%	30%
Revenue growth (YoY)		+7.1%	+12.0%
OP margin		12.5%	17.4%