



Issued by: Test-Rite International Co. Ltd (Ticker: 2908 TT/ 2908 TW)
Subject: Test-Rite 4Q17 and FY2017 earnings result announcement

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Test-Rite reports 4Q17 revenue of NT\$8.7 billion, net income of NT\$222 million, and basic EPS of NT\$0.43 which had NT\$0.23 increase compared to 4Q16. Accumulated revenue of NT\$36.96 billion, net income of NT\$823 million, and basic EPS of NT\$1.61 which had NT\$0.28 increase to the comparable period.

Our consolidated trading revenue was NT\$16.49 billion in 2017, marking an annual increase of 25.8%. Shipments to Walmart, the world's largest retailer by revenue, increased by 4.5% as we continued to hold the leading position as a "Tools Category Manager." Similarly, our strategic alliance with Hillman, the renowned U.S. hardware importer, performed well with shipments increasing significantly during the year. Our agency business also delivered a strong performance, with shipments up by 11% to NT\$12 billion. On the whole, total shipments reached an historic high of NT\$28.16 billion in 2017, representing an annual increase of 19.4%. Over the years, we have committed to offering best-in-class value-added products and services to our clients and key partners. Looking ahead, we remain focused on nurturing these strategic relationships as we develop new product categories, refine product value propositions, and strengthen our product expertise to drive further growth.

Our consolidated retail business in Taiwan reported revenue of NT\$16.74 billion in 2017, which was 4.8% lower than in the previous year, and net income after tax of NT\$523 million. Conditions for the housing-related segment of the retail market remain challenging. According to Taiwan's Department of Statistics, total sales in two housing-related industries, namely Housing Products and Accessories and Construction Materials, fell by 4.1% and 4.6%, respectively, in 2017. Despite these headwinds, we remained steadfast in elevating our customers' experience through effective marketing and high-quality services as a way to fortify their loyalty. Our efforts were acknowledged in Vision Magazine's "2017 Service Company Survey," where TLW and HOLA were awarded the first and second prizes in the housing industry category. Notably, sales of our private label products continued to post strong growth in 2017, with margins rate rose by 0.4% compared to 2016, and accounting for 13.5% and 33.0%, respectively, of TLW and HOLA's total sales (sales increased by 0.5% and 18.1%, respectively, compared to the previous year).

In addition to the progress made in our established retail channels in Taiwan, we have also deployed our resources to take advantage of new opportunities. In our brand agency business, sales picked up by 28.1% YoY in 2017. At the same time, overall sales from our e-commerce channels increased meaningfully by 59.2%, accounting for 4.7% of TLW and HOLA's total sales (sales from our stand-alone official website registered growth of 106.2%). In December 2017, we launched the new TR Plus website, which combined TLW and HOLA's online assets while also improving the overall user experience in browsing, buying and interactivity. Our aim is to establish a one-of-a-kind one-stop online platform in Taiwan for all things related to the home. Complementing the convenience of online access is an expanded offering of 'hardline' and 'softline' products and services, such as partial renovations and house-cleaning services. We expect e-commerce to play a key role in driving the growth of our retail business and to offer increasingly more value-added services to fulfil evolving customer demands. Our TLW Home Improvement Service Unit, which provides renovations and home maintenance services, launched a website at the end of 2017 in conjunction with ITRI (Industrial Technology Research Institute) specifically for elderly customers. This single portal, the first of its kind in Taiwan, enables customers to conveniently book appointments, obtain evaluations and quotations, and make payments for integrated services such as cleaning and maintenance.



Our HOLA China business reported revenue of NT\$2.7 billion in 2017, which was a decline of 24.4% YoY. We continued with implementing our strategy of eliminating poorly performing stores and improving profitability and efficiency. With the closure of 7 stores in 2017, losses after tax narrowed to NT\$279 million, which was 21% lower than in the previous year. Major changes in the retail market are underway in China. Online companies have extended their businesses offline. Mainstream retail has now embraced the concept of “New Retail” as they operate without boundaries for an improved customer experience. Much has been invested in providing new experiential forms of product engagement and improving customer service. We aim to stay competitive in the China market by working with local strategic partners and leveraging our expertise in procurement, operating retail channels and stores, and offering customers distinctive experiences with our brand. All said, we expect to further narrow the losses and move closer to breakeven going forward.

As of the end of 2017, Test-Rite Group operated 27 TLW (DIY) stores, 25 HOLA stores in Taiwan, 2 Crate & Barrel stores, and 26 HOLA stores in China.

(Please see Figure 1 for our 4Q17 consolidated P&L)

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Figure 1 –Test-Rite IFRS based consolidated P&L for 4Q17

(NT\$mn)	4Q17	4Q16	YoY%	FY2017	FY2016	YoY%
Consolidated sales	8,697	8,386	3.7%	36,963	35,443	4.3%
COGS	(6,127)	(5,730)	6.9%	(26,180)	(24,184)	8.3%
Gross profit	2,570	2,656	-3.2%	10,783	11,259	-4.2%
Operating Expense	(2,392)	(2,553)	-6.3%	(9,822)	(10,434)	-5.9%
Operating profit	178	103	71.8%	961	825	16.5%
Non-operating income/loss	245	(1)	NA	150	67	122.6%
Pre-tax profit	423	102	316.9%	1,111	892	24.6%
Net profit	222	100	121.2%	823	676	21.7%
Other net profit	(49)	(88)	-44.3%	(54)	(205)	-73.5%
Total net profit	173	12	1329.5%	769	471	63.1%
Net profit attribute to TRIC shareholders	222	100	121.2%	823	676	21.7%
NT dollar (After Tax)						
Basic EPS	0.43	0.2	115%	1.61	1.33	21.1%
Diluted EPS	0.43	0.19	126.3%	1.61	1.32	22.0%
Gross margin	29.5%	31.7%	-2.1%	29.2%	31.8%	-2.6%
Operating margin	2.0%	1.2%	0.8%	2.6%	2.3%	0.3%
Pretax margin	4.9%	1.2%	3.7%	3.0%	2.5%	0.5%
Net margin	2.6%	1.2%	1.4%	2.2%	1.9%	0.3%

Figure2–Test-Rite IFRS based consolidated sales and profit by BU for 4Q17

Sales by BU (NT\$mn)	4Q17	4Q16	YoY%	FY2017	FY2016	YoY%
Taiwan Retail	4,192	4,400	-4.7%	16,744	17,592	-4.8%
HOLA China	671	990	-32.2%	2,708	3,584	-24.4%
Trading	3,542	2,709	30.8%	16,488	13,105	25.8%
Others	292	287	1.5%	1,023	1,162	-12.0%
Consolidated Sales	8,697	8,386	3.7%	36,963	35,443	4.3%
Net Profit by BU (NT\$mn)	4Q17	4Q16	YoY%	FY2017	FY2016	YoY%
Taiwan Retail	137	183	-25.1%	523	597	-12.4%
HOLA China	(62)	(33)	87.3%	(279)	(353)	-21.0%
Trading	5	26	-82.0%	501	609	-18.0%
Others	142	(76)	-288.9%	78	(177)	-143.7%
Consolidated Net Profit	222	100	121.2%	823	676	21.7%

© Trading included Great China, TRPC, SO/RO, and related party transactions write-off.

▲ Taiwan Retail included TLW, HOLA, Décor House, TLW Service, Testrite Brand Agency, and Test Rite C&B.

^ HOLA China only included HOLA China.

Others included Life 1 Plaza, TRR others, Chung Cin, group office expense, and gain on sale and leaseback