



Issued by: Test-Rite International Co. Ltd (Ticker: 2908 TT/ 2908 TW)

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Subject: Test-Rite 2Q16 earnings result announcement

Test-Rite Group reports 2Q2016 consolidated revenue of NT\$8.8 bn, net income of NT\$117 mn, and basic EPS of NT\$0.23. The earning result is slightly better than the same period of last year. The accumulated earning of basic EPS is NT\$0.83. In general, Taiwan retail earning is stable. The growth of trading business has offset the increased loss of HOLA China, resulting in minimal growth of EPS in the first half of 2016.

Test-Rite Group continues improving gross margin in 2Q16. By increasing the sales mix of private label and providing value-added services to our trading customers, both of the major business units, Taiwan retail and trading businesses, achieve higher gross margin. Consolidated gross margin in 2Q16 is 31.2%, increased 1% comparing to the same period last year. Also, accumulated gross margin increased 0.9% in the first half of 2016.

Trading business has reported 30.4% YoY growth of net profit in 2Q16, as well as 36.7% YoY growth in the first half of 2016. The robust US economy and thriving agency business remains to be the momentum of trading in the second quarter. The demands of hardline products, including hand tools, power tools and auto, are surging while US housing and auto market is strong. North America is showing double-digit growth in the first half of 2016. Hardline category is noteworthy with 37% growth YoY. However, non-US regions, including Europe and Australia, are sluggish. As for the fast growing agency business, customers continue to expand the scope of purchased categories due to newly developed categories of auto and building materials. Agency accumulated shipments escalated by 42% YoY. Moreover, we launched a new type of business model in the second quarter to earn commissions by providing order management services. Through satisfying customers' various needs of services level, Test-Rite is better positioning ourselves as a total solution provider in the global supply chain management. Even though the new business model only requires limited degree of services and it's lower in commission rate, it has very strong demands globally. It has accounted for 26% of total trading shipments since it started from the second quarter. While the 2nd half year is usually the hot season of a year, we hope the growth trend of trading may continue.

Taiwan retail businesses, including TLW (DIY) and Hola Taiwan saw sales of NT\$4.2 bn, a 2.5% growth YoY; net profit of NT\$91 mn, a 6.4% increase YoY. The Private Label strategy has led continuous improvement of gross margin. Private label sales mix of TLW and HOLA has reached to 12.1% and 24.5% respectively in 2Q16. While the Taiwan real-estate price remains high and the number of monthly transactions goes south to the record low, many households turned to do some renovations of residence. TLW is benefited because demands of DIY products like painting, LED bulbs and other DIY maintenance products are growing. Cross the strait in China, HOLA is still facing strong headwinds, reported net loss of NT\$130mn in 2Q2016 and loss of NT\$227 mn YTD.

By the end of 2Q16, TLW (DIY) has 27 stores in Taiwan; HOLA has 25 stores in Taiwan and 33 stores in China. We have closed three stores in China which located in Shanghai, Beijing and Nanjing separately. Instead of expansion strategy in China, we tend to more carefully review the profitability of each store now. By closing those underperformed stores, we hope to quickly minimize the losses in HOLA CN. In the mean time, we undertake various actions to keep driving sales up. For example, we launched the franchise model with city partners, increased investments in E-commerce, strengthened customers experiences in physical stores, and integrated merchandisers in China and Taiwan. Through these fundamental changes, HOLA CN is better evolving in long-term intrinsic value.

(Please see Figure 1 for our 2Q16 consolidated P&L)



Figure 1 –Test-Rite IFRS based consolidated P&L for 2Q16

(NT\$mn)	2Q16	2Q15	YoY%chg	FY2016	FY2015	YoY%chg
Consolidated sales	8,758	8,968	-2.3%	18,400	18,623	-1.2%
COGS	(6,022)	(6,256)	-3.7%	(12,560)	(12,881)	-2.5%
Gross profit	2,736	2,712	0.9%	5,840	5,742	1.7%
Operating Expense	(2,555)	(2,550)	0.2%	(5,317)	(5,202)	2.2%
Operating profit	181	162	11.5%	523	540	-3.2%
Non-operating income/loss	32	5	597.9%	84	15	448.4%
Pre-tax profit	213	167	27.7%	607	555	9.3%
Net profit	117	110	6.7%	423	420	0.9%
Other net profit	(43)	4	NA	(52)	(58)	-11.7%
Total net profit	74	114	-34.3%	371	362	2.9%
Net profit attribute to TRIC shareholders	117	110	6.7%	423	420	0.9%
NT dollar (After Tax)						
Basic EPS	0.23	0.22	5.1%	0.83	0.83	0.5%
Gross margin	31.2%	30.2%	1.0%	31.7%	30.8%	0.9%
Operating margin	2.1%	1.8%	0.3%	2.8%	2.9%	-0.1%
Pretax margin	2.4%	1.9%	0.6%	3.3%	3.0%	0.3%
Net margin	1.3%	1.2%	0.1%	2.3%	2.3%	0.0%

Figure2–Test-Rite IFRS based consolidated sales and profit by BU for 2Q16

SalesbyBU(NT\$mn)	2Q16	2Q15	YoY%chg	FY2016	FY2015	YoY%chg
Taiwan Retail	4,240	4,152	2.1%	9,078	8,853	2.5%
HOLA China	853	931	-8.4%	1,797	2,011	-10.6%
Trading	3,370	3,401	-0.9%	6,959	6,840	1.7%
Others	295	484	-39.0%	566	919	-38.4%
Consolidated Sales	8,758	8,968	-2.3%	18,400	18,623	-1.2%
Net Profitby BU (NT\$mn)	2Q16	2Q15	YoY%chg	FY2016	FY2015	YoY%chg
Taiwan Retail	91	86	6.4%	341	366	-6.8%
HOLA China	(130)	(84)	54.3%	(227)	(114)	98.6%
Trading	198	152	30.4%	401	293	36.7%
Others	(42)	(44)	-3.7%	(92)	(125)	-26.9%
Consolidated Net Profit	117	110	6.7%	423	420	0.9%

Business units definition is following the management report



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