



Issued by: Test-Rite International Co. Ltd (Ticker: 2908 TT/ 2908 TW)
Subject: Test-Rite 4Q16 and FY2016 earnings result announcement

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Test-Rite reports FY2016 revenue of NT\$35.4 bn, net income of NT\$676 mn, and basic EPS of NT\$1.33; The Board has approved management's proposal to distribute cash dividend payout of NT\$1.08 per share. Cash yield is 5.4% based on Test-Rite's closing price of 3/23.

When we look back the year of 2016, financial result is similar to the comparable period, but Test-Rite has been deeply cultivating for future growth. First of all, Test-Rite has made the strategic alliance with Hillman, a renowned hardware importer in the USA. By leveraging Test-Rite's famous sourcing and supply chain management capability in Asia, both companies will create synergies and expand economic scales. Test-Rite is also honored to be rewarded as "supplier of the year" by O'Reilly. Furthermore, after 18 years, Test-Rite once again returned to the "Tools Category Manager" position in Walmart. By strengthening the collaboration with major customers, we expect the growth of trading will contribute significantly in future years. The burgeoning trading agency business also plays an important role while new customers and new products proliferating. In the second quarter of 2016, we launched a new business model 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. The booming trading agency has shown 100.8% increases YoY, leading the total shipment of trading reaching its historical high of NT\$23.6 bn, 29.6% YoY.

As for our retail business in Taiwan, TLW and HOLA remain its leading position in DIY and home décor industry. However, Test-Rite very carefully tackles the changing behavior of customers. The proposed new business model of retail aims to break the boundary between online and offline. To improve our online content, TLW and HOLA have doubled its online product skus in the past year. TLW and HOLA currently contain more than 40 thousands and 30 thousands skus separately. Both product skus have exceeded that in physical stores. Through the integration of POS system, customers can now easily extend the selections beyond in-store products, hence breaking the limits of displaying and inventory in physical stores. By guiding the massive offline memberships to online, we hope to fully eliminate the boundary in terms of product, payments, membership and marketing. We also reinforce experiential marketing in physical stores and create irreplaceable value of human by extending services into customers' home. As a result, the "TLW Home Improvement Service Unit" made profit for the first time in 2016 since its establishment from 2010.

Taiwan retail businesses, including TLW (DIY) and HOLA Taiwan saw sales of NT\$17.6 bn and a net profit of NT\$597 mn in FY2016. Affected by the chill real-estate market in Taiwan, consumers' demands for replacement of household items are lowered. According to the government department of statistics, the wholesale of household items and building materials dropped at 4.85% and 2.78% YOY separately in 2016, both showing the biggest downturn in the past decade. Even though Taiwan retail market is sluggish, Test-Rite made 1.6% of positive growth YoY in 2016. Our private label has been growing more



and more mature in terms of design and theme, accounted for more sales than ever. TLW Private Label products accounted for 12.8% TLW sales in 2016, along with 57.7% sales growth. On the other hand, HOLA Private Label products accounted for 26.3% HOLA sales, along with 27.8% sales growth. The purpose of private label is not only to bring about higher gross margin, it's also an important step to build up differentiation in the market.

HOLA China showed NT\$ 3.6 bn and net loss of NT\$353 mn in FY2016. It was the most difficult year since we entered into the China market since 2004, but it's also the best year because we have seen a very clear trend that consumption upgrade has extended from the richest to the middle class. The average sales per ticket in China even exceed that in Taiwan. However, our challenge is to contend with changing behavior of Chinese customers. The way consumers absorb product information and do the purchase has greatly changed. Consequently, our first priority is no longer relying on opening physical stores, we closed 5 stores instead. By reviewing the profitability of each store, we want to increase the operation efficiency and focus on the region of east and north China where we have already had higher presence and brand awareness. Being able to increase the HOLA brand identity in the region and use E-commerce as supplementary channels to the spread out. As of the cut-off date, Test-Rite Group operated 27 TLW (DIY) stores, 25 HOLA stores in Taiwan, and 33 HOLA stores in China.

(Please see Figure 1 for our 4Q16 consolidated P&L)

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Figure 1 –Test-Rite IFRS based consolidated P&L for 4Q16

(NT\$mn)	4Q16	4Q15	YoY%	FY2016	FY2015	YoY%
Consolidated sales	8,386	8,367	0.2%	35,443	35,981	-1.5%
COGS	(5,670)	(5,586)	1.5%	(24,185)	(24,679)	-2.0%
Gross profit	2,716	2,781	-2.3%	11,259	11,303	-0.4%
Operating Expense	(2,526)	(2,684)	-5.9%	(10,434)	(10,492)	-0.6%
Operating profit	190	97	96.0%	825	810	1.8%
Non-operating income/loss	(88)	13	NA	68	55	23.6%
Pre-tax profit	102	110	-7.5%	892	865	3.2%
Net profit	100	99	1.2%	676	671	0.8%
Other net profit	(88)	(116)	-24.3%	(205)	(131)	56.0%
Total net profit	12	(17)	-169.7%	471	540	-12.6%
Net profit attribute to TRIC shareholders	100	99	1.1%	676	671	0.8%
NT dollar (After Tax)						
Basic EPS	0.2	0.19	5.3%	1.33	1.32	0.4%
Gross margin	32.4%	33.2%	-0.9%	31.8%	31.4%	0.4%
Operating margin	2.3%	1.2%	1.1%	2.3%	2.3%	0.1%
Pretax margin	1.2%	1.3%	-0.1%	2.5%	2.4%	0.1%
Net margin	1.2%	1.2%	0.0%	1.9%	1.9%	0.0%

Figure2–Test-Rite IFRS based consolidated sales and profit by BU for4Q16

Sales by BU (NT\$mn)	4Q16	4Q15	YoY%	FY2016	FY2015	YoY%
Taiwan Retail	4,400	4,315	2.0%	17,592	17,312	1.6%
HOLA China	990	1,085	-8.7%	3,584	3,997	-10.3%
Trading	2,709	2,625	3.2%	13,105	13,038	0.5%
Others	287	343	-16.1%	1,162	1,634	-28.9%
Consolidated Sales	8,386	8,367	0.2%	35,443	35,981	-1.5%
Net Profit by BU (NT\$mn)	4Q16	4Q15	YoY%	FY2016	FY2015	YoY%
Taiwan Retail	183	133	37.1%	597	604	-1.3%
HOLA China	(33)	(54)	-38.9%	(353)	(256)	37.6%
Trading	30	134	-77.6%	626	615	1.8%
Others	(80)	(114)	-29.8%	(194)	(292)	-33.6%
Consolidated Net Profit	100	99	1.1%	676	671	0.8%