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# Test Rite Group (2908:TT) 4Q16 IR Presentation

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*2017 April*

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- Beginning on January 1, 2013, the Company has adopted International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board and endorsed by ROC Financial Supervisory Commission (FSC). Reporting for our annual and interim consolidated financial statements follow Taiwan IFRS requirements, however, given that there exist material differences between Taiwan IFRS and generally accepted accounting principle in the Republic of China (ROC GAAP), selected comparison of financial results in 2013 may have material differences versus previously released financial information under ROC GAAP.

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# Agenda

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# 2016 YTD Snapshot

## 2016 GROUP OVERVIEW

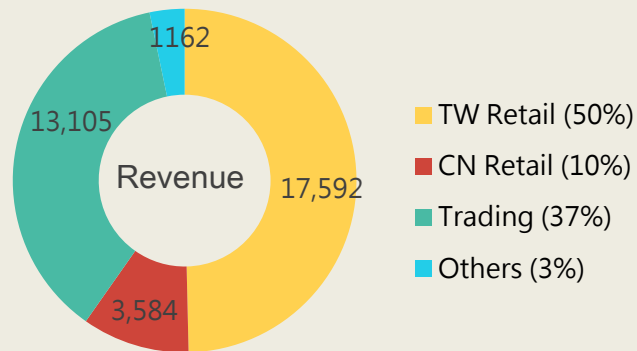
NT\$ 35,443M  
Revenue

NT\$ 11,259M  
Gross Profit

NT\$ 825M  
Operating Profit

NT\$ 676 M  
Net Profit

NT\$ 1.33  
EPS



TLW (TW)  
27 stores

HOLA (CN)  
33 stores

HOLA (TW)  
25 stores

Brand Agency  
23 brands

TLW Private Label  
13.8%

HOLA (TW) Private Label  
31.3%

Total Retail Revenue  
NT\$ 21,176M

Total Trading Shipment  
NT\$ 23,586M

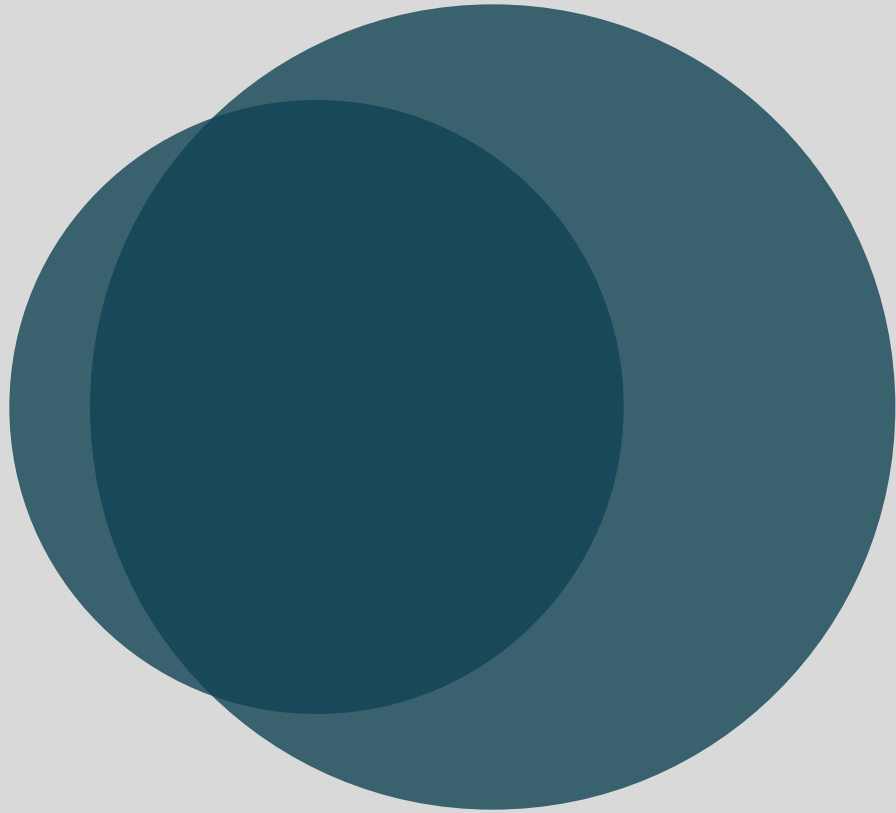
N. America Shipment  
79.4%

Europe Shipment  
11.5%

Global Presence  
11 countries/14 offices

Warehouse  
4 countries

Global Employees  
6,397 people



# FINANCIAL HIGHLIGHTS

# Financial Highlights 4Q16

## Revenue (YoY)

2016: -1.5%

4Q16: 0.2%

## Gross Profit

2016: 31.8%

4Q16:32.4%

By increasing the sales mix of TLW and HOLA's private label. Gross margin has continuously increased in the past five years.

## Operating Profit

2016: 2.3%

4Q16:2.3%

The increased operating profit of trading business has offset the decreased retail profit , resulting in similar operating profit in comparison to the last year.

(NT\$ mn)	4Q16	4Q15	YoY% chg	FY2016	FY2015	YoY%chg
Revenue	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%
Diluted EPS	0.19	0.30	0.0%	1.32	1.32	0.0%
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%	2.1%	1.9%	0.0%

# 4Q16 by BU

## Revenue by BU

Trading and TW Retail business grow stably, while CN Retail faces stronger headwinds.

## Net Profit by BU

Trading pre-tax profit has greatly increased in association with the increased trading shipment in 2016. However, the net profit showed similar to the last year because of less tax benefits in this year. Consolidated net profit is NT\$676 mn, 0.8% growth YoY.

Sales by BU (NT\$ mn)	4Q16	4Q15	YoY% chg	FY2016	FY2015	YoY%chg
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%
<b>Consolidated Sales</b>	<b>8,386</b>	<b>8,367</b>	<b>0.2%</b>	<b>35,443</b>	<b>35,981</b>	<b>-1.5%</b>
Net Profit by BU (NT\$ mn)	4Q16	4Q15	YoY% chg	FY2016	FY2015	YoY%chg
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%
<b>Consolidated Net Profit</b>	<b>100</b>	<b>99</b>	<b>1.1%</b>	<b>676</b>	<b>671</b>	<b>0.8%</b>

© 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.

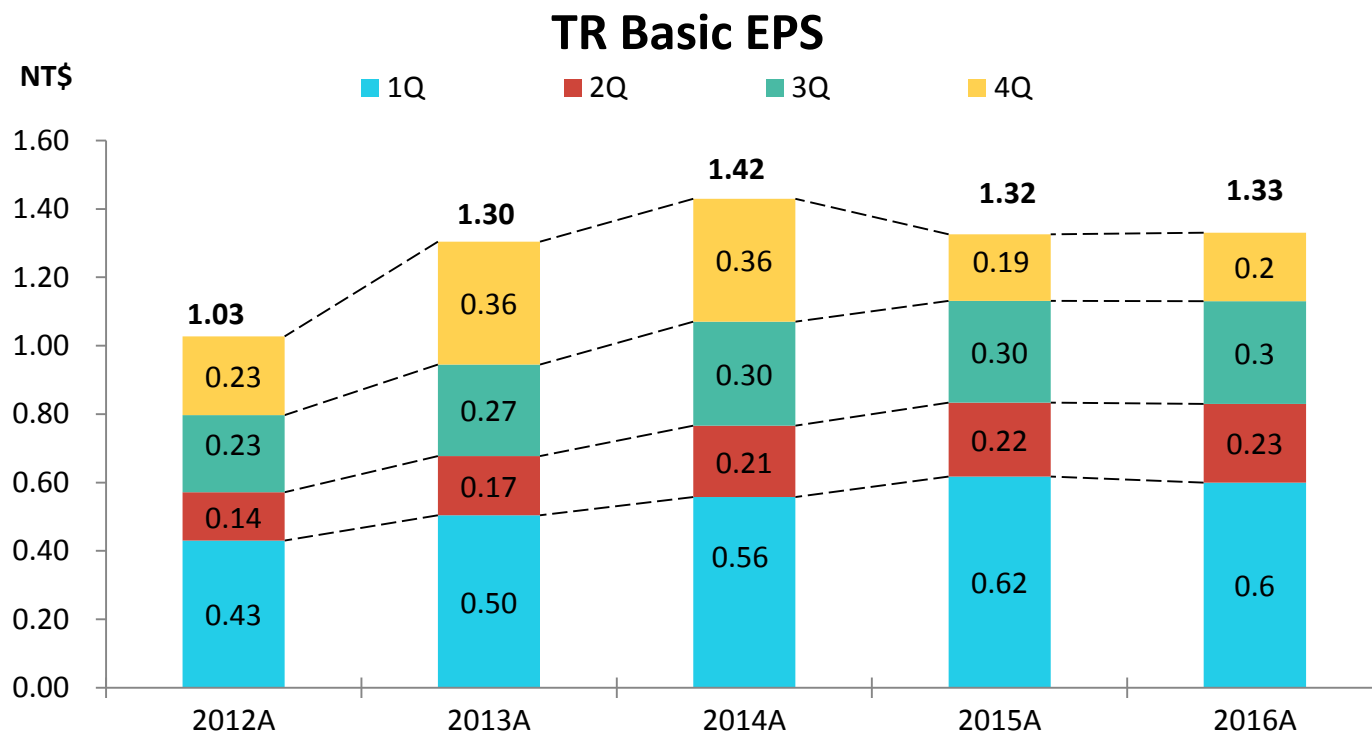
^ HOLA China only included HOLA China.

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

# Stable Cash Div. and High Tax Deductable

NT\$	2012A	2013A	2014A	2015A	2016A
Cash dividend	1.08	1.00	1.13	0.95	1.08
Payout rate	77.1%*	76.9%	79.6%	72.0%	81.2%
Tax Deductable	20.48%	20.48%	20.48%	20.48%	20.48%

\* EPS 1.4 on R.O.C. GAAP basis





# Long-term Investment Value



Only 12 companies in the service industry can keep up in the top 100 list for over 30 years.

Company Name	1986 Ranking	2016 Ranking
Taiwan Power Co.	1	1
China Telcom	2	6
China Airline Co.	3	10
Evergreen Marine Co.	4	12
YangMing Marine Co.	7	13
Taiwan Railway Admin.	8	55
Taiwan Water Co.	13	48
Far Eastern Dept. Store	14	32
HoTai Motor	17	9
CTCI Construction	33	22
Wan Hai Lines Co.	37	24
Test-Rite	43	41

In such a rapidly changing environment of service industry, most of the survivors are state-owned companies.

It again proves our value of steady corporate management. Also showing our continuous efforts to **deliver long-term investment value for all investors.**

# Best Interest of Shareholders

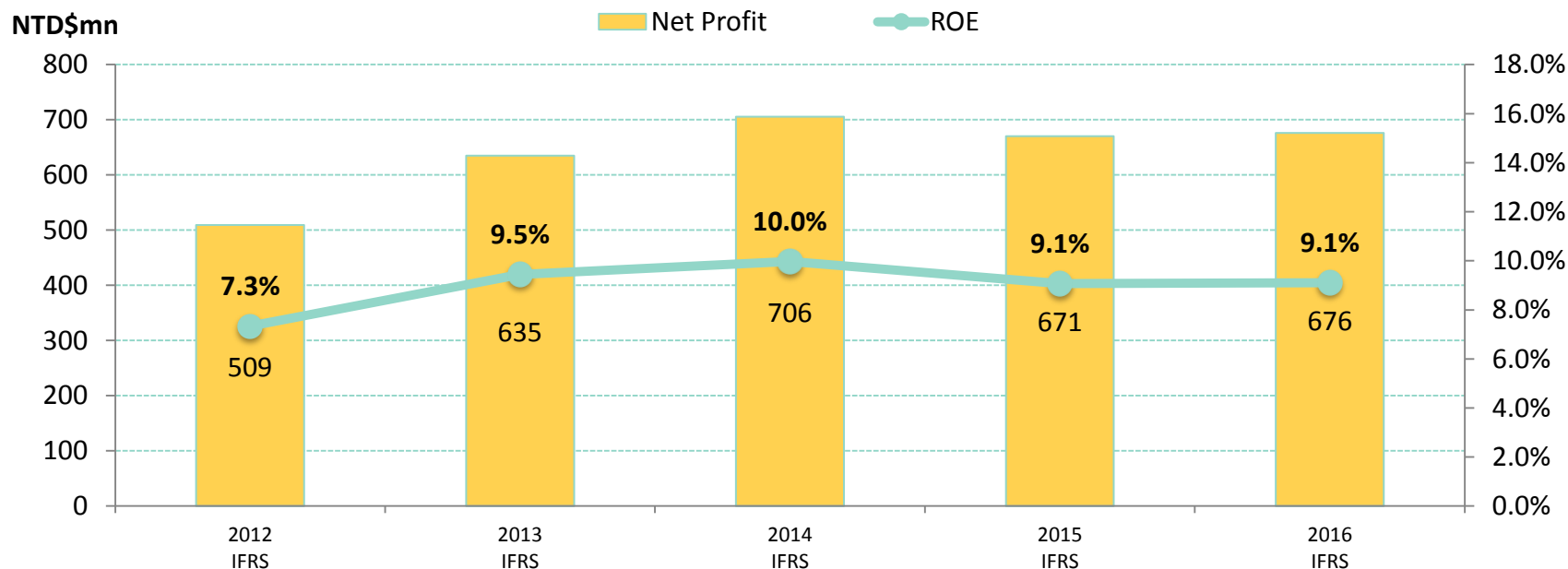
## Test Rite pursues best interests of shareholders

ROE is stable at 9-10% in the past 3 years

## Highly Transparent

Test Rite is awarded by TWSE as the top 6%-20% best corporate governance public company.

### TR Group ROE & Net profit



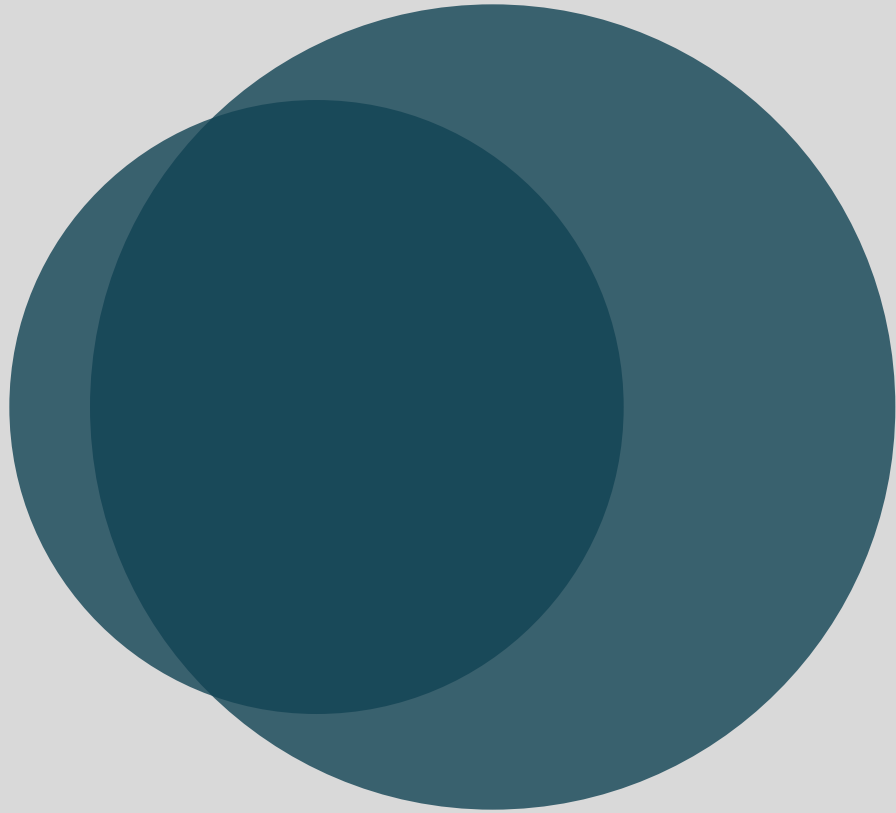
# 2017 Outlook

## Trading Business

- 1) Transforming to product company and strengthening product development ability
- 2) Provide value-added services to enhance sourcing and supply chain management
- 3) Strengthening strategic alliance with the trading partners to increase shipments.
- 4) Developing 3<sup>rd</sup> party QA/QC business
- 5) Integrating the newly acquired German subsidiary to expand European business
- 6) Reaching synergies of group trading and retail business
- 7) Continuing to enhance customer relationships

## Retail Business

- 1) Store opening schedule in 2017
  - TLW, HOLA TW : no new store
  - Crate & Barrel: no new store ; online store will open in the first half year.
  - Brand agency will expand presences in department stores.
  - HOLA CN: no new store, but it will focus on reviewing profitability of each store and developing EC/Franchise model.
- 2) Enhancing customers experiences in physical store
- 3) Through the integration of POS system, we hope to fully eliminate the boundary in terms of product, payments, membership and marketing. Hence guiding our massive offline memberships to online.
- 4) Strengthening TLW Home services business unit to extend our services into customers' home, and cooperating with real-estate developers.
- 5) Raising the sales mix of private label
- 6) Joint merchandise



# GROUP INTRODUCTION

# Key Management Team



Tony Ho, Group Chairman; Co Founder of Test-Rite Group. Tony played a critical role in Test-Rite's expansion into retail business and was instrumental in leading the company's IPO efforts. Tony recently completed the two-year Joint Executive MBA Program between Taiwan University and Fudan University and completed his graduation thesis: "How to pursue further growth by organization transformation-take large retail group for example."

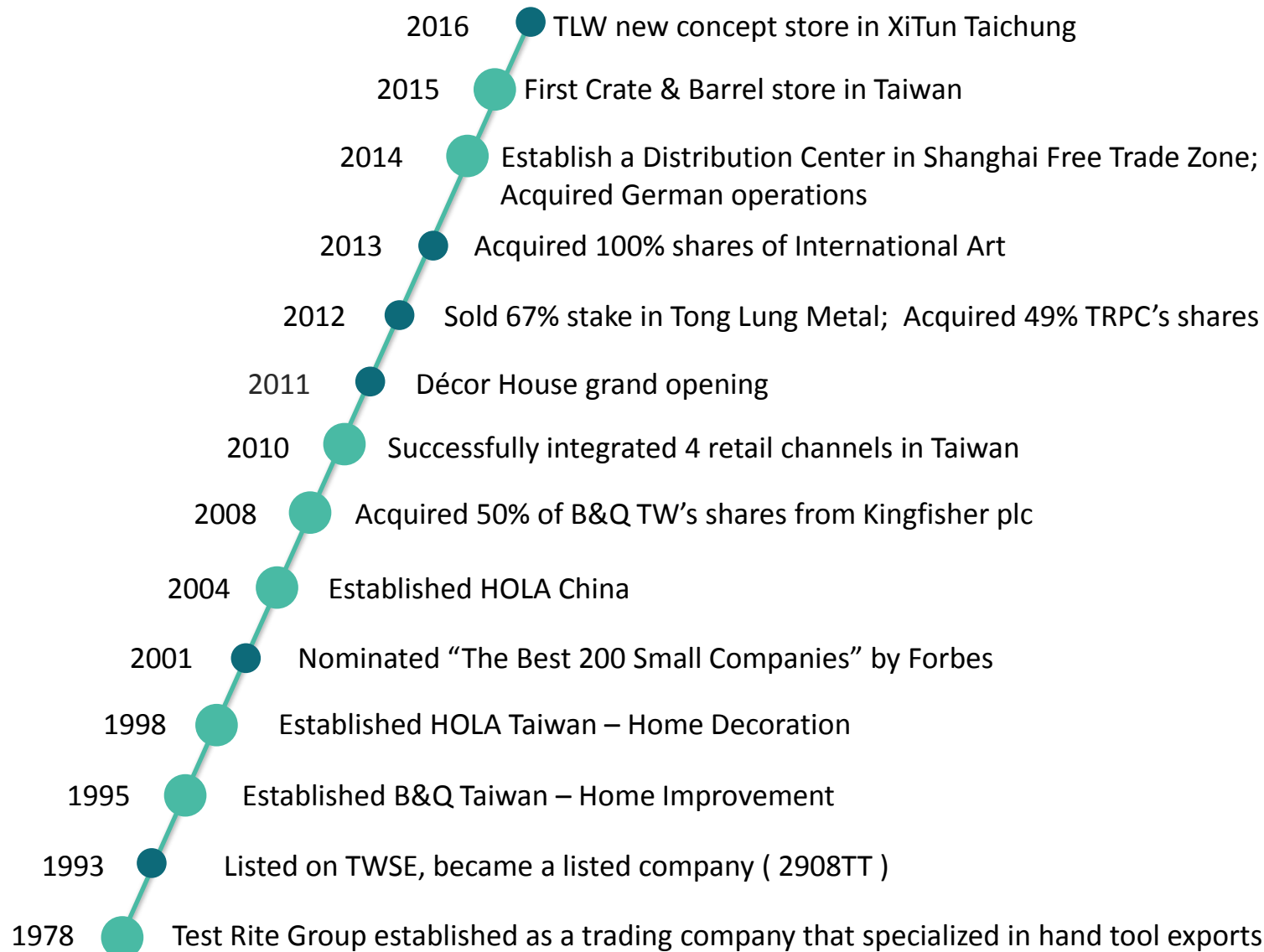


Judy Lee, Chairwoman, Test-Rite Int'l (2908 TT/2908 TW); Co Founder of Test-Rite Group. Best known as the "Queen of Hardline", Judy is a seasoned veteran of the import/export trading business. With Judy at the helm, Test-Rite Trading consistently provides outstanding services to retail customers globally and has received multiple recognitions as "Best Partner/Supplier". Judy is also awarded by "EY Entrepreneur of the Year" in 2015.



Sophia Tong, Group CEO. Sophia joined Test-Rite in March 2009 to lead both Trading and Retail businesses. Prior to Test-Rite Sophia was the General Manager of IBM Taiwan from 2006 to 2009 and the Director of China Banking Cluster for IBM Greater China Group. Sophia was previously with IBM for over 25 years.

# Milestones

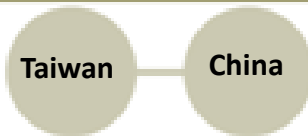


# Group Structure

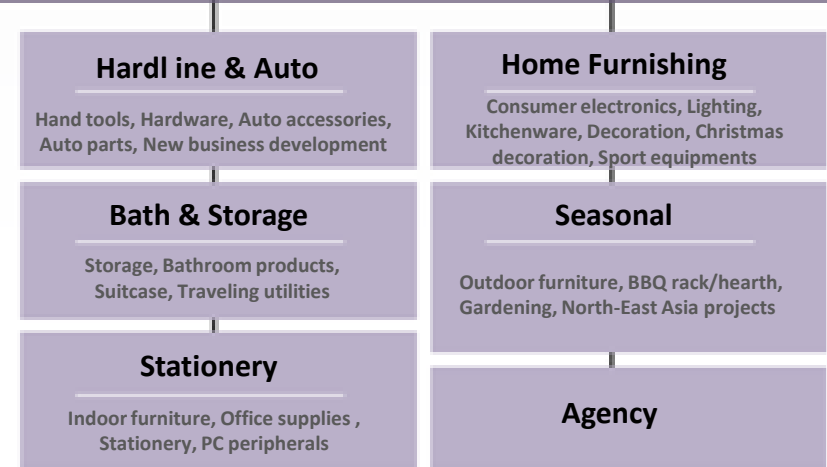
## Test Rite Retail Business Group (4Q2016 Revenues: ~NTD\$ 44bn)

<b>Home decoration</b>	HOLA	Taiwan (25) China (33)
<b>Home Improvement</b>	TLW 特力屋 (27), TLW PLUS (1), HISU(2)	
<b>Mattresses &amp; Bedding</b>	HOLA CASA (23), HOLA Petite(9), WEDGWOOD(14), FRETTE(6), Zucchi (3)	
<b>Comprehensive home integration services</b>	DÉCOR House	
<b>Brand Agency</b>	Crate & Barrel (2)	

### Market deployment



## Test Rite Trading Business Group (4Q2016 Shipment Value: ~NT\$84 bn)



### Market deployment



## Other investment holdings

### Creative Design/ Product Development

Theme Trend & Product Concept; Product Design; VI & Graphic Design; Packaging & Purchasing

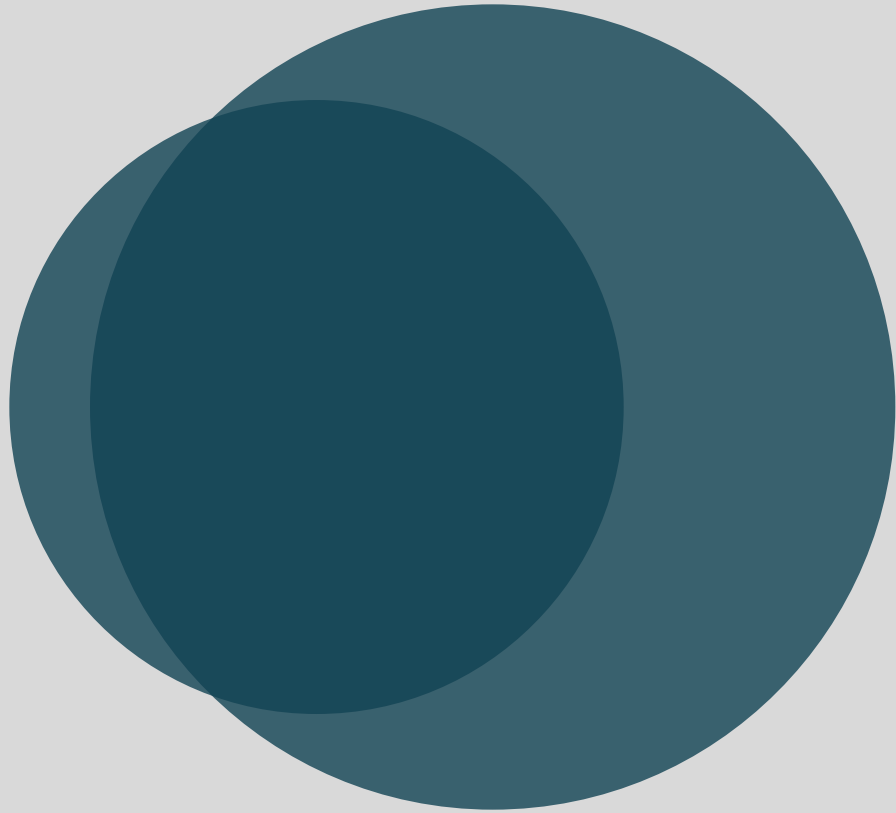
### Chung Cin Corp.

Shopping mall construction; Office building construction; Booth recruitment

### Logistics/ warehousing services

China  
USA  
Taiwan  
Europe

Note: store numbers updated on December 31<sup>th</sup>, 2016

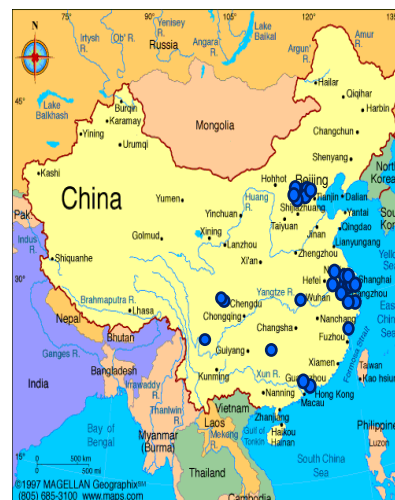


# RETAIL SECTOR



# Building the best “Home-related” channel

Store #	2011A	2012A	2013A	2014A	2015A	2016A
TLW	23	24	26	26	26	27
HOLA TW	20	21	22	23	25	25
HOLA CN	28	31	33	35	38	33
Avg. selling space(m <sup>2</sup> )	2011A	2012A	2013A	2014A	2015A	2016A
TLW	3,824	3,696	3,541	3,541	3,410	3,727
HOLA TW	2,700	2,466	2,414	2,311	2,179	2,218
HOLA CN	2,147	2,054	1,904	1,853	1,867	1,881



## Store Locations



# Improve Margin by Private Label

4Q2016

TLW Sales mix 13.8%  
HOLA Sales mix 31.3%



## Mid-term Goal

TLW: reaches 15%  
HOLA: reaches 30%

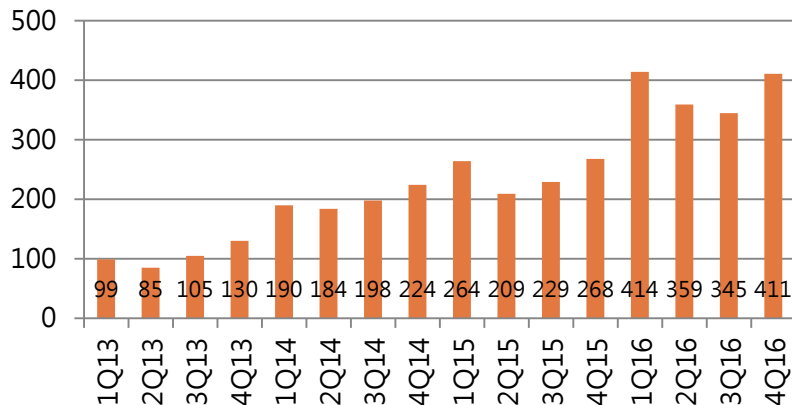
## Long-term Goal

TLW: reaches 30%  
HOLA: reaches 50%

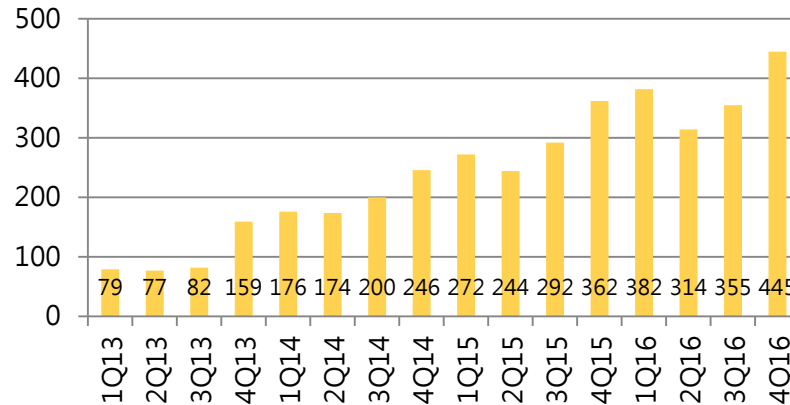
- Save costs by joint-merchandise
- Leading home décor trend by strengthening PL designing ability



TLW PL Sales(Quarterly)



HOLA PL Sales(Quarterly)



# Omni-Channel Development

## 4Q2016

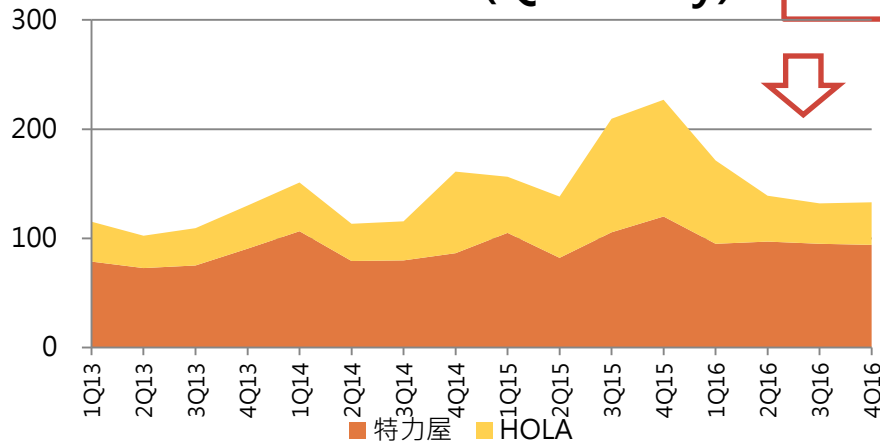
- TLW EC Sales mix 3.2%
- HOLA EC Sales mix 2.7%
- The double 11 EC sales season has created more than NT\$30 mn sales.



## 2017 Goal

- Growth of EC traffics and product skus
- New version of EC platform
- Improve customers experiences in physical stores
- Transforming online traffic to offline shoppers

### EC Sales (Quarterly)



The decrease is mainly because TLW and HOLA discontinued to distribute physical stores coupons online. Actually, the EC sales has grown more than 30%.

Current

TLW online skus >40,000

HOLA online skus >30,000

Online sales per ticket is about 1.5-2x times of physical stores

# Growth Driver – Brand Agency

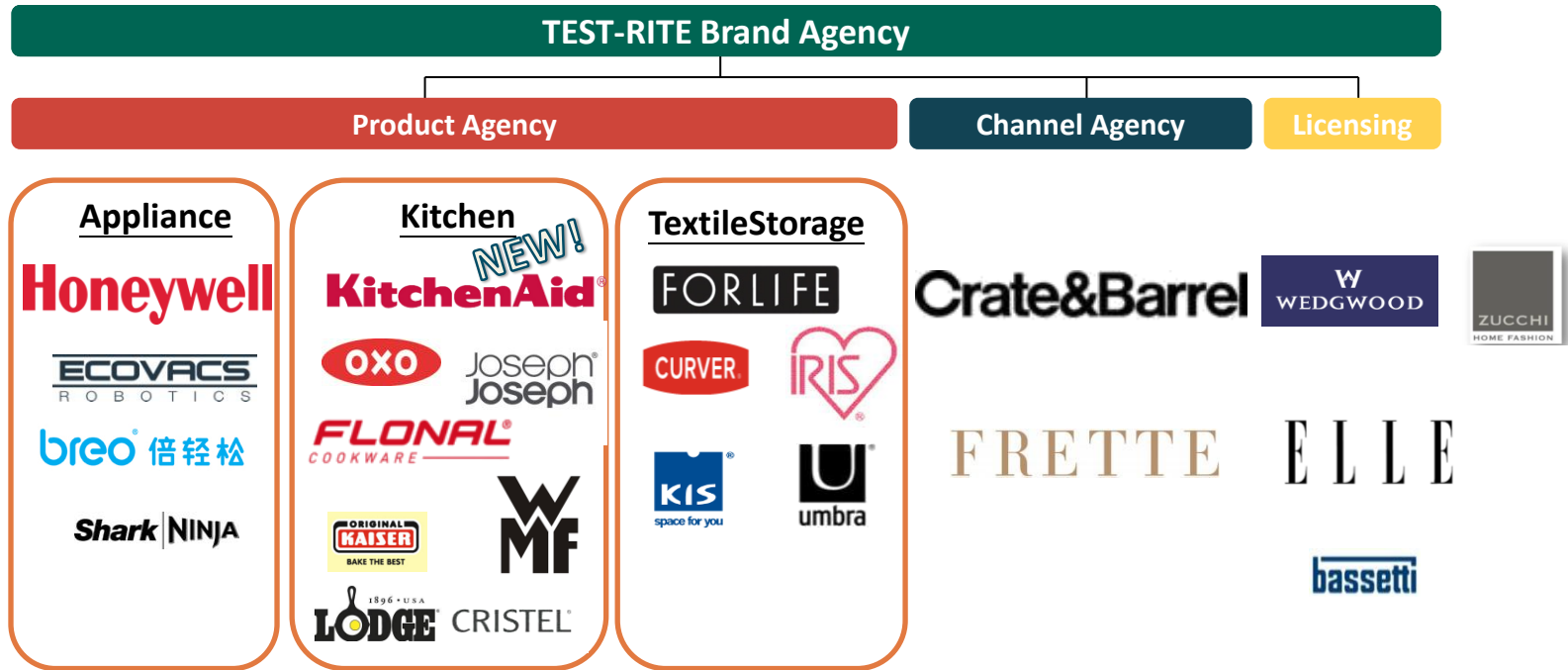
4Q2016

Total of 23 brands agency



2017 Goal

- Increase the brand awareness in the market
- Increase channels in department stores



# HOLA China Strategy

## 4Q2016

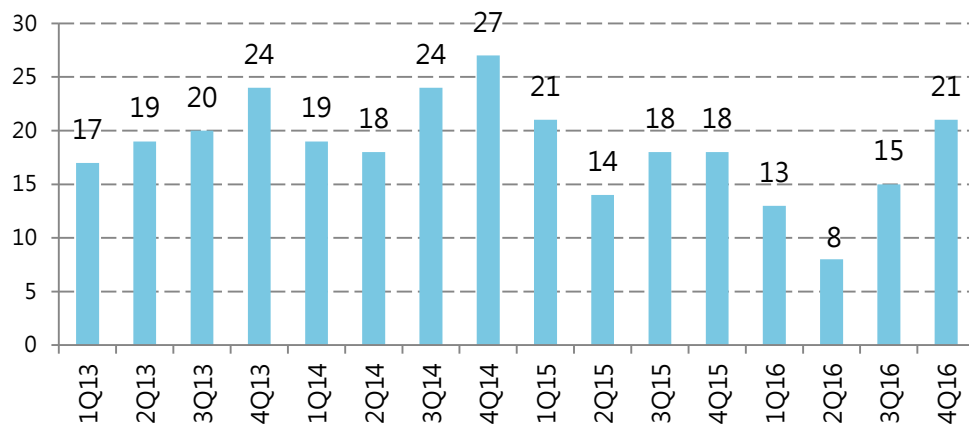
- Private Label Sales mix: 19.5%
- EC Sales mix: 2.81%
- Self-Supported Sales mix: 57.9%
- The double 11 EC sales has tripled than last year, reaching NT\$16 mn on one day.
- Closed 5 stores in 2016



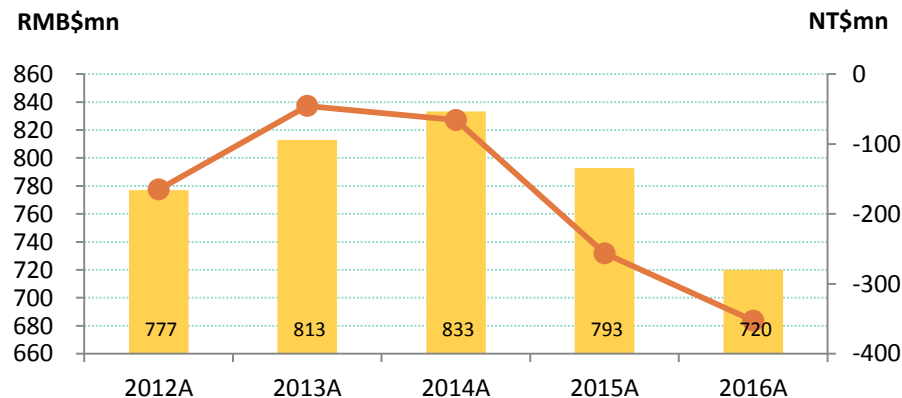
## 2017 Goal

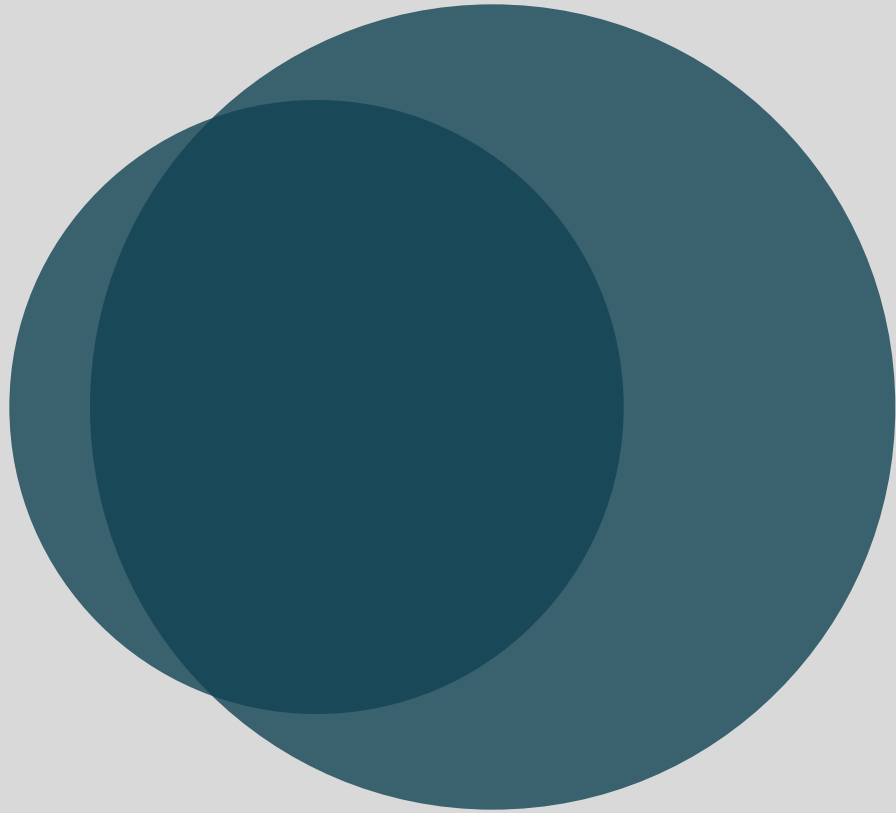
- Increase Self-Supported sales \ PL sales and joint merchandise
- Improve store level profit and decrease headquarter costs to reach breakeven point
- Making structural adjustment by actively shut down those stores which can't achieve profitability goals.

HOLA CN Breakeven store numbers



HOLA CN Net Sales & Profit





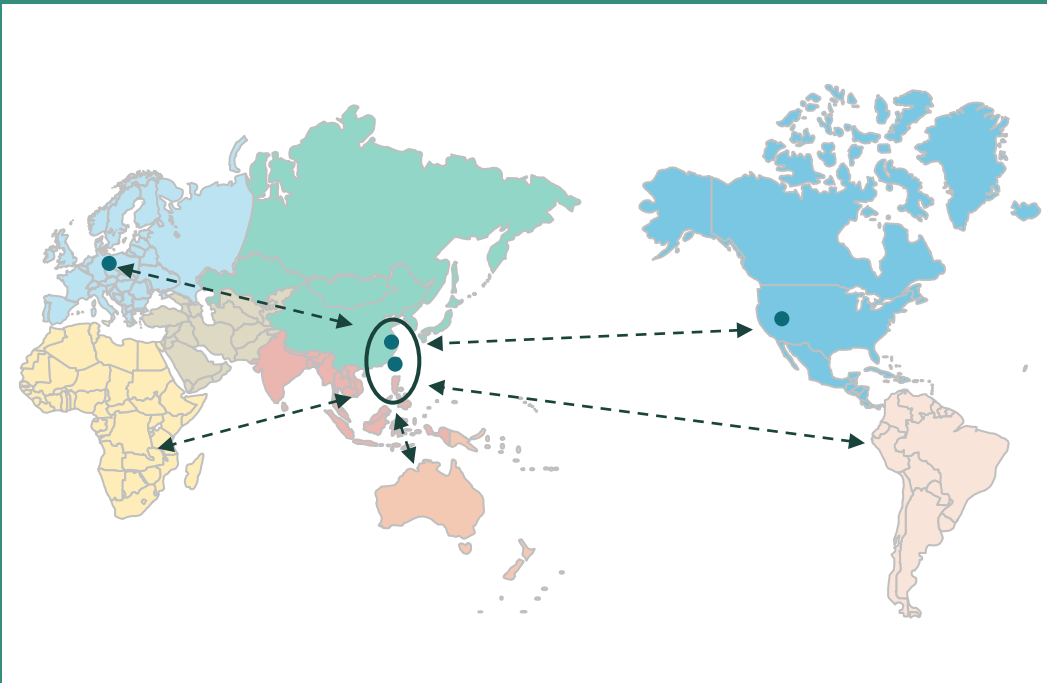
# TRADING SECTOR

# Global Worldwide Network

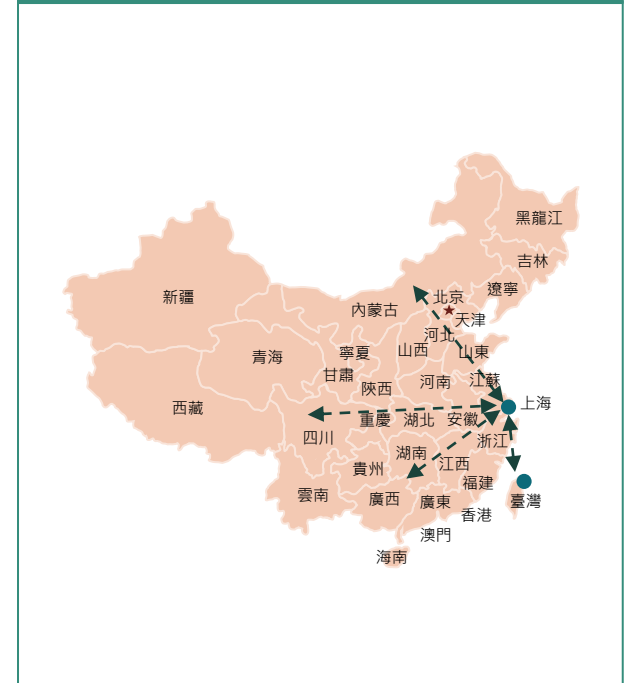


- With local service of 14 offices in 11 countries/region, 4 warehouses in China, Taiwan, Germany, and U.S separately.
- US warehouse provides logistics/ warehousing service to customers of principal trading

## Worldwide Trading Service



## China Trading Service



● TESTRITE's Warehouse

# Partner with Global Retail Giants

Provide value-added services and supply chain management in Principal Trading



Growth of Agency Trading





# N. America drives the growth

## 2016

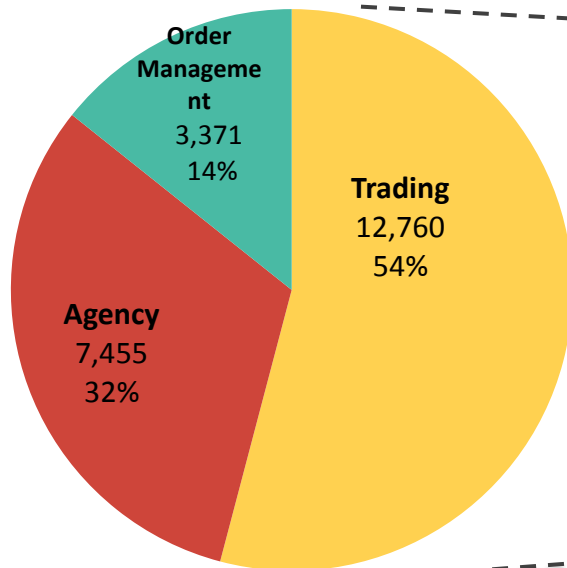
- N. America market is growing faster than other regions.
- The prosperous U.S. housing and auto market has driven double-digit growth of hand tools and power tools.
- Agency Business and order management has big leap at 46% growth in 2016.



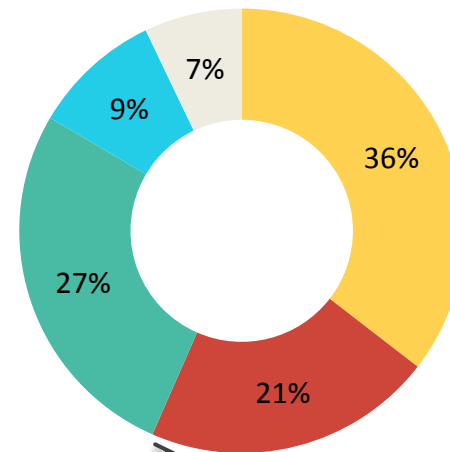
## 2017 Goal

- Hardline and House Ware keep growing
- Closely work with the strategic alliances to further boost trading shipments.
- Transforming to product company and strengthening product design ability
- Acquiring new customers in Agency

Total Shipment NT\$23,586M



Total Shipment  
29.6% growth YoY



### Trading by Category

- Hardline
- House Ware
- Seasonal
- Electrical
- Others

# Shipment growing

## 4Q2016

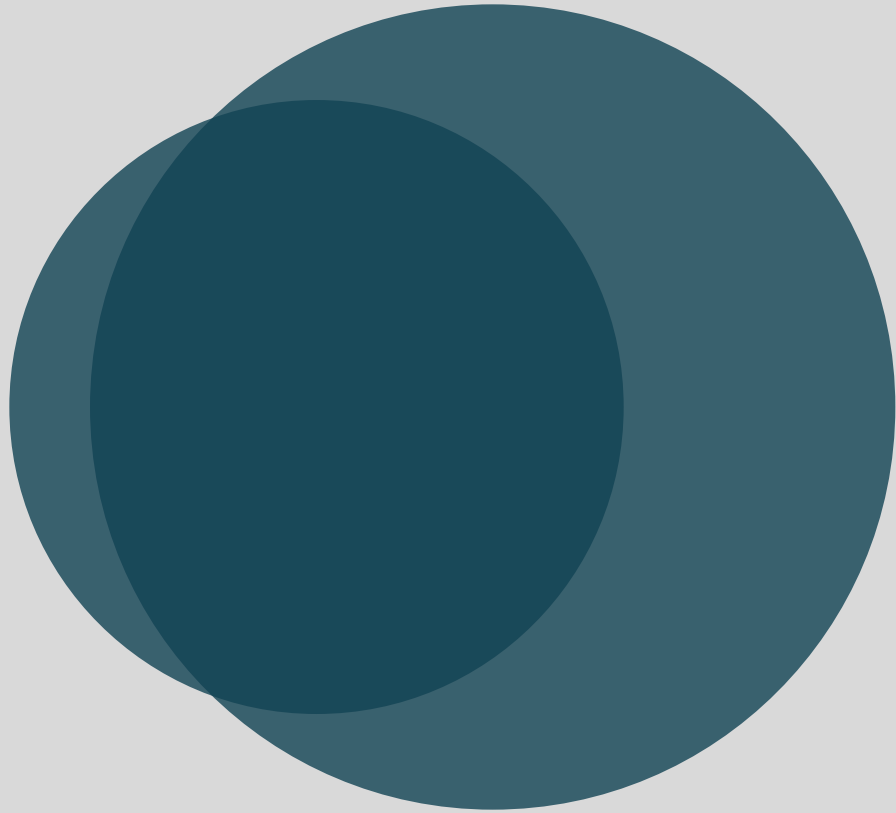
- The fourth quarter is off-season for trading, so it only showed 8.4% growth in shipment; 30% growth for the whole year.
- Launched the new business to provide order management services since the 2<sup>nd</sup> quarter.



## 2017 Goal

- Principal trading aims to grow 10% more by working closely with strategic alliance
- Agency business aims to have double-digit growth in shipment.
- Order management aims to grow furthermore.

Shipment Volume	2016	2015	YoY % chg
Principal trading shipment – 4Q16	2,651,931	2,563,826	3.4%
Agency business shipment – 4Q16	1,566,630	1,326,147	18.1%
- Agency shipments	1,263,658	1,326,147	-4.71%
- Order management shipments	302,972	0	NA
<b>Total Shipment – 4Q16</b>	<b>4,218,561</b>	<b>3,889,973</b>	<b>8.4%</b>
Principal trading shipment – Accumulated	12,760,304	12,800,789	-0.3%
Agency business shipment – Accumulated	10,825,650	5,392,040	100.8%
- Agency shipments	7,454,805	5,386,060	38.4%
- Order management shipments	3,370,845	5,980	56268.4%
<b>Total Shipment – Accumulated</b>	<b>23,585,954</b>	<b>18,192,829</b>	<b>29.6%</b>



# APPENDIX

# Private Label - Designing & Branding ability

HOLA Spring/Summer and Autumn/Winter style is leading the trend of Home décor each year

## 2017 Spring/Summer 「Paris after the rain」 Home Style The Beauty of watercolor ● Rain washed blending colors



# New Private Label - Cookware

Price Competitive / Higher Margin

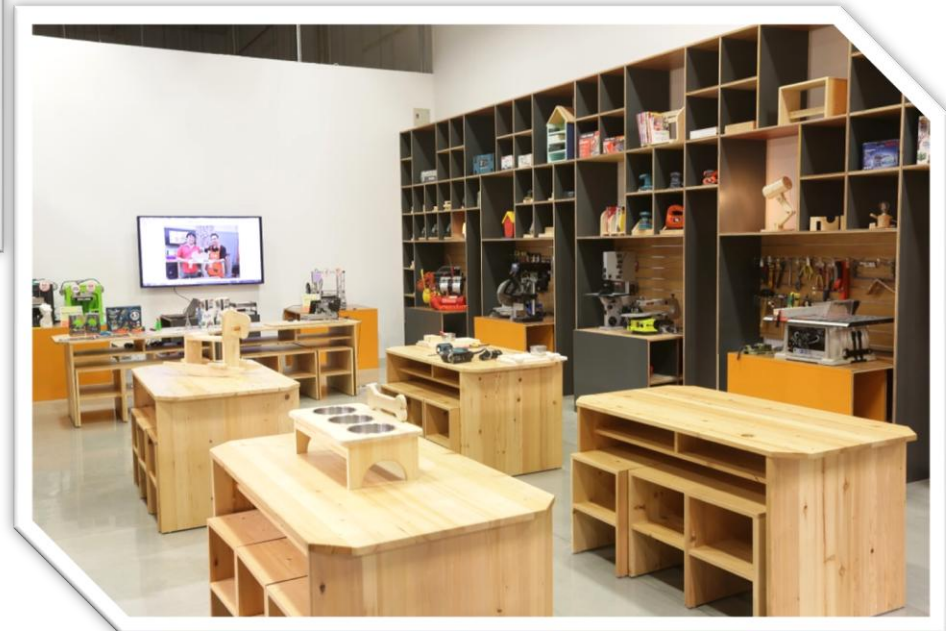
Launched on Nov-2016 / sold **15,000pcs** in **1Q2017**  
"Stainless Steel Series, Non-Stick Series, and Cast-Iron Series"



# TLW2.0 – Buy after you experience it

## New Concept Store

TLW Shihlin store includes the 400m<sup>2</sup> **“Service Center for the real scene of home”**, and The largest **“DIY Classroom”** in Taiwan with the area of 100m<sup>2</sup>.



# Product Development Achievement

## 2014-2017 International Design Award

### 2017 iF Designing Awards



Arcadia Set 1



Chandler Set 1



Richmond Bar Set 1



Richmond Set Smoked glass with etching



# Repositioning-Total Solution Provider





# 2016 Consolidated Balance Sheet

(NT\$ mn)	2016	2015		2016	2015
Cash and cash equivalents	2,302	1,903	Short-term borrowings	1,800	2,283
Financial assets at fair value through profit or loss - current	452	939	Short-term notes bills payable	-	50
Debt investments with no active market - current	176	297	Financial liabilities at fair value through profit or loss – current	51	-
Accounts & notes receivable	2,465	2,473	Accounts and notes payable	5,805	5,825
Other receivable	244	257	Other payable	1,657	1,475
Inventories	6,643	6,719	Current tax liabilities	185	163
Prepayments	359	381	Advance receipts	555	503
Other current financial assets	17	30	Current portion of long-term borrowings	600	1,604
Other current assets	4	24	Other current liabilities	156	191
<b>Total current assets</b>	<b>12,662</b>	<b>13,023</b>	<b>Total current liabilities</b>	<b>10,809</b>	<b>12,094</b>

# 2016 Consolidated Balance Sheet

(NT\$ mn)	2016	2015		2016	2015
Financial assets measured at cost - non-current	94	94	Long-term borrowings	5,572	5,107
Debt investments with no active market - non-current	105	50	Total non-current provisions	27	-
Property, plant and equipment	5,842	6,411	Net defined benefit liability	493	565
Goodwill and intangible assets	2,572	2,613	<b>Other non-current Liability</b>	<b>6,092</b>	<b>5,672</b>
Deferred tax assets	1,279	1,249	<b>Total non-current liabilities</b>	<b>16,901</b>	<b>17,766</b>
Other non-current assets	1,763	1,755			
<b>Total non-current assets</b>	<b>11,655</b>	<b>12,172</b>	Share capital	5,099	5,099
			Capital surplus	673	673
			Retained earnings	1,807	1,682
			Other equity	-166	-28
			Treasury shares	0	0
			Total equity attributable to owners of the Company	7,413	7,426
			Non-controlling interests	3	3
			<b>Total equity</b>	<b>7,416</b>	<b>7,429</b>
<b>Total assets</b>	<b>24,317</b>	<b>25,195</b>	<b>Total liabilities &amp; equity</b>	<b>24,317</b>	<b>25,195</b>

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THANK YOU

For Watching

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