



Issued by: Test-Rite International Co. Ltd (Ticker: 2908 TT/ 2908 TW)
Subject: 2Q18 and 1H18 Earnings Results Announcement

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Test-Rite reported 2Q18 revenue of NT\$9.92 billion, net income of NT\$134 million, and basic EPS of NT\$0.26 (largely unchanged from 2Q17). In 1H18, revenue and net income were NT\$20.3 billion and NT\$443 million, respectively, while basic EPS was NT\$0.87, which was an increase of NT\$0.01 from the comparable period a year ago.

Our consolidated revenue and net profit in the second quarter increased by 6.9% and 1.2% YoY, respectively. Revenue benefited from the growth of trading in the U.S. market while the increase in net profit was mainly attributable to strength in our overall trading business.

On a consolidated basis, our trading revenue grew by 15.8% YoY and reached NT\$5.04 billion in 2Q18. Momentum and shipment volume in our principal trading and agency businesses were maintained thanks to robust demand from global retailers in North America. As a result, net profit totaled NT\$228 million in 2Q18, an increase of 57.7% from the same period a year ago. Aside from principal trading, the agency business also contributed meaningfully in 1H18. This was helped by the development of new product categories, such as automotive and building materials. We continued to see growth in the number of customers and demand in various product categories. As of the end of 1H18, there were 10 agency customers. Staples, one of the largest office furniture retailers in the U.S. were the latest additions. The increase in the number of customers continues to strengthen the positioning of our agency business in the trading market.

Our Taiwan retail business reported revenue of NT\$3.98 billion in the second quarter, which was 2.1% lower than the comparable period a year ago. Net profit came in at NT\$16 million. Against a backdrop of weak domestic demand, consumers have become more conservative in their willingness to spend. The number of visitors has accordingly fallen, leading to a decline in revenue. In the second half of the year, our efforts are focused on enhancing our marketing strategy and increasing differentiated product categories to attract visitors, as well as expand our cooperation with channel partners in order to boost revenue. Furthermore, to strengthen procurement capabilities, our Taiwan retail business comprehensively adjusts the procurement strategy and cancels the supplier's general rebate and sales return, reflecting the purchase cost in a one-price way; however, the existing unsold inventory will have an impact on operating costs in the short run. These initiatives will have an impact, resulting in a slight decline in gross profit margin compared to the previous year. We expect that the operational benefits brought about by the restructuring of our procurement strategy in 2H18 will gradually emerge. Despite an overall challenging consumer environment at present, we have continued to invest in promotional and other marketing activities to strengthen our brand communication. Moreover, we have expanded our online product offerings and invested new-generation store remodeling. These efforts are focused on delighting customers' shopping experience with us and bolster purchasing demand in the second half of the year. As of the end of end of 1H18 Test-Rite Group operated 27 TLW (DIY) stores and 26 HOLA stores in Taiwan, and 2 Crate & Barrel stores



HOLA China reported revenue of NT\$552 million in 2Q18 (down 12% YoY) and a net loss after tax of NT\$110 million. The closure of poorly performing stores and the general scaling back of operations accounted for the drop in revenue. The bottom line was impacted by a one-time charge related to our partnership with Suning Co. Excluding the one-time charge, the net loss would have narrowed compared to 2Q17. The closure of poorly performing stores and efforts made to enhance the profitability and operational efficiency of the existing stores are helping with the turnaround. In addition, we are pursuing strategic partnerships similar to the one with Suning in an effort to enhance brand recognition and uncover synergies to help minimize our net loss. As of the end of 1H18, Test-Rite Group operated 26 HOLA stores in China.

(Please see Figure 1 for our 2Q18 consolidated P&L)



Figure 1 – Test-Rite IFRS-based consolidated P&L for 2Q18

(NT\$m)	2Q18	2Q17	YoY%	FY2018	FY2017	YoY%
Consolidated sales	9,921	9,278	6.9%	20,269	18,995	6.7%
COGS	(7,409)	(6,611)	12.1%	(14,984)	(13,391)	11.9%
Gross profit	2,512	2,667	-5.8%	5,284	5,604	-5.7%
Operating expense	(2,391)	(2,473)	-2.9%	(4,866)	(5,002)	-2.7%
Operating profit	121	194	-40.9%	419	602	-30.4%
Non-operating income/loss	42	(46)	NA	1	(71)	NA
Pre-tax profit	162	148	9.4%	420	531	-20.9%
Net profit	138	132	4.2%	450	440	2.4%
Other net profit	6	66	-90.9%	24	(39)	-161.5%
Total net profit	144	198	-27.5%	474	401	18.4%
Net profit attributable to TRIC shareholders	134	132	1.2%	443	440	0.8%
NT Dollar (After Tax)						
Basic EPS	0.26	0.26	0.0%	0.87	0.86	1.6%
Diluted EPS	0.26	0.26	0.0%	0.87	0.86	1.6%
Gross margin	25.3%	28.7%	-3.4%	26.1%	29.5%	-3.4%
Operating margin	1.2%	2.2%	-1.0%	2.1%	3.2%	-1.1%
Pre-tax margin	1.6%	1.6%	0.0%	2.1%	2.8%	-0.7%
Net margin	1.4%	1.4%	-0.1%	2.2%	2.3%	-0.1%



Figure 2 – Test-Rite IFRS-based consolidated sales and profit by business unit for 2Q18

Sales by BU (NT\$mn)	2Q18	2Q17	YoY%	1H18	1H17	YoY%
Taiwan Retail	3,976	4,060	-2.1%	8,375	8,507	-1.6%
HOLA China	552	628	-12.0%	1,151	1,380	-16.6%
Trading	5,036	4,347	15.8%	10,036	8,649	16.0%
Others	357	243	47.3%	707	459	54.0%
Consolidated Sales	9,921	9,278	6.9%	20,269	18,995	6.7%
Net Profit by BU (NT\$mn)	2Q18	2Q17	YoY%	1H18	1H17	YoY%
Taiwan Retail	16	87	-81.0%	224	336	-33.3%
HOLA China	(110)	(84)	32.1%	(168)	(153)	10.2%
Trading	228	145	57.7%	432	345	25.2%
Others	(0)	(15)	-98.2%	(46)	(89)	-48.5%
Consolidated Net Profit	134	132	1.2%	443	440	0.8%

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

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

^ HOLA China only.

Others include Life 1 Plaza, TRR others, Chung Cin, group office expenses, and gains on sale and leaseback.

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