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TCL ELECTRONICS HOLDINGS LIMITED

TCL 電子 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

(the “Company”, together with its subsidiaries, collectively the “Group”)

ANNOUNCEMENT ON BUSINESS UPDATE FOR THE THREE MONTHS ENDED 31 MARCH 2019

This is a voluntary announcement made by the Company.

The board of directors of the Company (“Board”) is pleased to announce certain unaudited financial and operational information of the Group for the three months ended 31 March 2019.

For the three months ended 31 March 2019:

The Group actively implemented its globalization strategy, strengthened product competitiveness and brand power, adhered to cost reduction and efficiency enhancement, and continued to accelerate the development of business diversification. The Group achieved satisfactory business and operational performance in the first quarter of 2019, realizing strong growth in sales volume. Expenses remained well under control and profitability kept strengthening.

- **Globalization Strategy Consolidated Market Leadership**

- **Sales Performance in the First Quarter Exceeded Expectation**

The Group sold approximately 8.44 million sets of liquid-crystal-display (“LCD”) TVs in the first quarter of 2019, a surge of 32.5% year-on-year, exceeding expectation. The LCD TV sales volume of overseas markets was approximately 5.95 million sets, representing an impressive growth of 50.9% year-on-year and becoming an important development engine of the Group’s business. In the PRC market, sales volume of LCD TVs grew steadily, up by 2.6% year-on-year to approximately 2.49 million sets, of which the self-branded products rose by 8.3% year-on-year.

- **Turnover Grew Notably by 15.8% Year-on-Year Profitability Kept Strengthening**
Strong sales volume pushed the Group's turnover up by 15.8% year-on-year to approximately HK\$12.57 billion in the first quarter of 2019 and gross profit margin reached 15.1%. Overseas markets' gross profit margin was up by 1.2 percentage points year-on-year to 13.0%. Adhering to cost reduction and efficiency enhancement, the Group maintained control over its expenses and profitability continued to strengthen.
- **Product Competitiveness Kept Enhancing Product Mix Optimized and Upgraded**
Benefitting from its globalization strategy, continuous enhancement to product competitiveness and brand power, plus continuous optimization to product and channel structures, in the first quarter of 2019, the Group sold approximately 6.84 million sets of smart TVs and approximately 3.32 million sets of 4K TVs, representing significant year-on-year growth of 47.4% and 82.8%, respectively.
- **Internet Business Grew Rapidly Profitability Further Strengthened**
The accumulated number of TCL activated Internet TV users totaled approximately 34.82 million, with a significant increase of 36.1% year-on-year. The average daily number of active users in March 2019 was approximately 17.12 million, up markedly by 42.0% compared to the corresponding period last year (source: Huan Technology Co., Ltd. ("Huan")). Turnover from Internet business in the first quarter of 2019 was approximately RMB98.55 million, and profitability of the business improved markedly over the past year and its monetization capability further enhanced.
- **Maintained Market Leadership**
According to Sigmaintell data, in terms of shipment, the ranking of the Group rose from third to second place in the global TV market in 2018 with a market share of 11.6%. According to CMM omni-channel data, in terms of turnover, the Group ranked third in the PRC TV market in 2018 with a market share of 12.8%.

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The Board is pleased to announce a business update on certain unaudited financial and operational information of the Group for the three months ended 31 March 2019.

The Group actively implemented its globalization strategy, strengthened product competitiveness and brand power, adhered to cost reduction and efficiency enhancement, and continued to accelerate the development of business diversification. It achieved satisfactory business and operational performance in the first quarter of 2019, realizing strong growth in sales volume. Expenses remained well under control and profitability kept strengthening:

Globalization Strategy Consolidated Market Leadership

Sales Performance in the First Quarter Exceeded Expectation

The Group sold approximately 8.44 million sets of LCD TVs in the first quarter of 2019, a surge of 32.5% year-on-year, exceeding expectation. The LCD TVs sales volume of overseas markets was approximately 5.95 million sets, representing an impressive growth of 50.9% year-on-year and becoming an important development engine of the Group's business. In the PRC market, sales volume of LCD TVs grew steadily, up by 2.6% year-on-year to approximately 2.49 million sets, of which the self-branded products rose by 8.3% year-on-year.

Turnover Grew by a Notable 15.8% Year-on-Year

Profitability Kept Strengthening

Strong sales volume pushed the Group's turnover up by 15.8% year-on-year to approximately HK\$12.57 billion and gross profit margin reached 15.1% in the first quarter of 2019. Overseas markets' gross profit margin was 13.0%, up by 1.2 percentage points year-on-year. Adhering to cost reduction and efficiency enhancement, the Group maintained control over its expenses and profitability continued to strengthen.

Maintained Market Leadership

According to Sigmaintell data, in terms of shipment, the ranking of the Group rose from third to second place in the global TV market in 2018 with a market share of 11.6%. According to CMM omni-channel data, in terms of turnover, the Group ranked third in the PRC TV market in 2018 with a market share of 12.8%.

Overseas Markets

The Group has pursued its efforts towards the implementation of its globalization strategy, and continued to expand sales channels and enhance economies of scale, which resulted in continuous increase in sales volumes, brand influence and gross profit margin in various regions in overseas markets. The profitability in overseas market improved substantially.

Sales Volume: The sales volume of the Group's LCD TVs recorded approximately 5.95 million sets in the first quarter of 2019, an impressive growth of 50.9% year-on-year in overseas markets.

- **North American Markets:** Maintained strong growth momentum, with sales volume rocketed by 112.0% year-on-year. According to the latest NPD market report data, in the first quarter of 2019, TCL was among the top two in North American markets by sales volume for six consecutive weeks, during which climbing up to No. 1 for three weeks;

- **Emerging Markets:** Remained on fast growth track, with sales volume up by 39.9% year-on-year, and benefitting from the Copa América sponsorship, sales volume in South American countries such as Argentina and Ecuador grew rapidly. Sales volume in Indonesia and Australia also sustained rapid growth. In terms of sales volume, in January and February 2019, the Group ranked 3rd in the Philippines, 4th in Thailand and Vietnam and 5th in Australia (source: GfK); and
- **European Markets:** Sales volume increased by 27.1% year-on-year, with areas including Germany, Italy and France achieving significant growth. The Group ranked 3rd in France in the first quarter of 2019 in terms of sales volume (source: GfK).

Turnover: In the first quarter of 2019, turnover of the Group’s LCD TVs in overseas markets surged by 39.9% year-on-year to approximately HK\$8.24 billion.

Gross Profit Margin: Gross profit margin of the Group’s LCD TVs in overseas markets for the first quarter of 2019 increased by 1.2 percentage points year-on-year to 13.0%, and the gross profit margin of its self-branded products was 13.8%.

Overseas markets, as an important growth engine of the Group’s business, continued on its strong growth path. In the first quarter of 2019, all key overseas markets recorded continuous increase in sales volume, with top rankings in the markets, achieving substantial and sustainable year-on-year growth in business performance. In addition, the Company further deepened its strategic partnership with Google and Roku, which is expected to generate new revenue stream of software and services this year.

The PRC Market

In the first quarter of 2019, overall demand was weak in the PRC market. According to the latest CMM omni-channel data, the overall sales volume of TVs in the PRC markets was down by 4.1% year-on-year in the first quarter of 2019. Despite industry downturn in sales volume, the Group remained stable with an upward trend in sales volume during the first quarter of 2019.

Sales Volume: In the first quarter of 2019, the Group sold approximately 2.49 million sets of LCD TVs in the PRC market, up by 2.6% year-on-year, and the sales volume of its self-branded products grew by 8.3% year-on-year.

Turnover: Turnover of the Group’s LCD TV in the PRC market dropped by 14.8% to approximately HK\$4.19 billion in the first quarter of 2019, mainly resulting from the decline of panel price and continued increase in proportion of its online sales.

Gross Profit Margin: The Group’s gross profit margin of LCD TV in the PRC market remained stable at 19.5% in the first quarter of 2019, growing quarter-on-quarter by 1.2 percentage points, and the gross profit margin of its self-branded products was up by 1.6 percentage points quarter-on-quarter to 22.1%.

Product Mix: Smart TVs and 4K TVs accounted for 82.4% and 55.2% respectively, of the Group’s total sales volumes (excluding ODM business) in the PRC market (excluding ODM business) in the first quarter of 2019.

Rising Brand Power: Brand price index in the PRC market rose from 102 in 2017 to 110 in 2018, ranking second among Chinese brands (source: CMM omni-channel data).

Internet Business

In the first quarter of 2019, the Group’s Internet business platform Shenzhen Falcon Network Technology Co., Ltd. stepped up effort in platform development and users operation, which resulted in marked improvement in operational efficiency of the business. During the first quarter of 2019, the business continued to expand and its profitability further strengthened.

Business Continued to Grow Rapidly

User Loyalty Continuously Enhanced

As at 31 March 2019, the accumulated number of the Group’s TCL activated Internet TV users increased by 36.1% year-on-year to approximately 34.82 million, and among all users, the number of paid users swelled by a significant 52.0% year-on-year. The average daily number of active users in the first quarter of 2019 increased by 42.0% year-on-year to approximately 17.12 million, indicating that the Internet TV business user base sustained notable growth. The average daily time of users on TV reached 5.7 hours, up by 11.8% year-on-year. By adopting delicacy management practices in user operation, user loyalty further enhanced.

Turnover Increased Significantly

Profitability Further Enhanced

In the first quarter of 2019, turnover of the Internet business was approximately RMB98.55 million, representing a notable increase of 59.1% year-on-year. Turnover from video-on-demand and membership was up by 45.5% while advertising increased by 51.5% year-on-year, reflecting a significant improvement in profitability and monetization capability of the business year-on-year. In addition, the Company further deepened its strategic partnership with Google and Roku in overseas markets, which is expected to generate new revenue stream of software and services this year.

Outlook

In the first quarter of 2019, the Group continued to deliver impressive results in its overseas markets, achieved stable growth in the PRC market, and further enhanced monetization capability of its fast growing Internet business. In 2019, with the theme of “upgrading innovation and enhancing efficiency” and leveraging on the first-mover advantage of the globalization strategy, the Group will seize the opportunity to develop smart Internet business while enhancing efficiency and keeping continuous business growth. The Group will consolidate its existing TV business while actively accelerating the development of diversified businesses including smart AV, commercial display and smart home businesses. Through the implementation of “AI x IoT” strategy, the Group is devoted to achieving the interconnection of hardware + software + all devices with IoT

scenarios, thereby greatly boosting its competitiveness and continuously enhancing its profitability. In the future, the Group will be dedicated to providing users with smart healthy living related products and empowering itself to become a global leading smart technology company so as to create greater value for shareholders.

Financial Highlights:

		2019Q1	2018Q1	Change
LCD TV Sales Volume ('000 sets)	Overall	8,443	6,374	+32.5%
	PRC	2,493	2,430	+2.6%
	Overseas	5,950	3,944	+50.9%
Turnover (HK\$ million)	Overall	12,573	10,853	+15.8%
	PRC	4,301	4,929	(12.7%)
	Overseas	8,272	5,924	+39.6%
Gross Profit Margin (%)	Overall	15.1	15.8	(0.7 p.p.)
	PRC	19.5	21.1	(1.6 p.p.)
	– self-branded product	22.1	23.3	(1.2 p.p.)
	Overseas	13.0	11.8	+1.2 p.p.
	– self-branded product	13.8	13.6	+0.2 p.p.

Enhancement in Product Competitiveness and Brand Price Index

	PRC Market ⁽²⁾		Overseas Markets ⁽²⁾	
	2019Q1	2018Q1	2019Q1	2018Q1
Proportion of 4K TV sales volume	55.2%	53.3%	49.4%	31.3%
Proportion of online sales volume	32.9%	32.1%	N/A	N/A
Brand price index ⁽¹⁾	110	102	N/A	N/A

Notes:

⁽¹⁾ 2018 annual and 2017 annual CMM omni-channel data

⁽²⁾ Excluding ODM business

Internet Business Figures:

	2019	2018
Internet business income in Q1 (RMB)	98.55 million	61.95 million
Accumulated number of TCL activated Internet TV users as at 31 March ⁽¹⁾⁽³⁾	34,818,253	25,588,112
Average daily number of active users in March ⁽²⁾⁽³⁾	17,118,261	12,058,685
Average daily time spent by users on TV in Q1 (hours)	5.7	5.1

Notes:

- (1) Number of TCL activated Internet TV users refers to the number of users who use the Internet TV web service for at least once
- (2) Average daily number of active users refers to the number of unrepeated individual users who have used the Internet TV services within 7 days
- (3) Source: Huan

The Board wishes to remind shareholders and potential investors of the Company that the above financial and operational data are based on the Group's management accounts which have not been audited or reviewed by auditors. Accordingly, figures and discussions contained in this announcement should in no way be regarded as any indication or assurance on the financial results of the Group for the three months ended 31 March 2019. Shareholders and potential investors of the Company are cautioned not to place undue reliance on such data.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 23 April 2019

As at the date of this announcement, the Board comprised Mr. LI Dongsheng, Mr. WANG Cheng Kevin, Mr. YAN Xiaolin and Mr. WANG Yi Michael as executive directors, Mr. Albert Thomas DA ROSA, Junior, Mr. YANG Anming, and Mr. LI Yuhao as non-executive directors and Mr. Robert Maarten WESTERHOF, Dr. TSENG Shieng-chang Carter, Professor WANG Yijiang and Mr. LAU Siu Ki as independent non-executive directors.