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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 NINE MONTHS AND THREE MONTHS ENDED 30 SEPTEMBER 2018

This is a voluntary announcement made by the Company.

The board of directors of the Company (the “Board”) is pleased to announce a business update on certain unaudited financial and operational information of the Group for the nine months and three months ended 30 September 2018.

For the nine months ended 30 September 2018:

Following the renaming of the Company, the Company has reinforced and strengthened its existing core TV business, while at the same time, it has gradually implemented strategic transformation and business diversification, in order to realize new profit growth opportunities. The Group recorded a satisfactory business performance for the first three quarters of 2018. As a result of continuous growth in its sales volume and turnover, a steady increase in its gross profit margin, and effective expense control, the Group’s profitability has been continuously enhanced:

- **Sales Boosted by Globalization Strategy, Raised Full-year Sales Target to 28.30 Million Sets**

Benefitting from stronger product and brand competitiveness and further penetration into overseas markets, the Group has made remarkable achievements in its globalization strategy. The sales for the first three quarters and the third quarter of the Group recorded sustainable and solid growth. In the first three quarters, the Group’s liquid-crystal-display (“LCD”) TV sales volume grew by 31.1% year-on-year to approximately 21.12 million sets, completing 82.5% of its initial full-year sales target of 25.60 million sets. The growth in the overseas sales volume was particularly strong, testifying to the success of the Group’s strategy for globalization. In the third quarter, the Group’s LCD TV sales volume grew by 22.1% year-on-year to approximately 7.95 million sets, reaching a quarterly record high.

- **Turnover Continued to Rise, with Gross Profit and Gross Profit Margin Increasing Year-on-year**

The Group's turnover increased by 16.1% year-on-year to a record high of approximately HK\$32.79 billion for the first three quarters. Gross profit rose by 17.7% year-on-year to approximately HK\$4.97 billion, with gross profit margin up 0.2 percentage point to 15.1%. The Group's profitability continued to improve, which was attributable to its continuous effort in cost reduction and efficiency enhancement, the apparent advantages of the economies of scale and effective expense control.

- **Continuous Optimization of Overall Product Mix and Product Competitiveness**

The Group has been committed to its premium product strategy and has been continuously optimizing its product mix and improving its product competitiveness. In the first three quarters, the sales volumes of smart TVs and 4K TVs soared by 49.1% and 63.6% year-on-year to 15,209,174 sets and 6,110,057 sets, respectively.

- **Greater Monetization Capability of Internet Business with Full-year Revenue Target Raised to RMB260 Million**

The number of newly-activated users operated by Huan Technology Co., Ltd. ("Huan") totaled 5,773,659 for the first three quarters, up 29.0% year-on-year. The number of accumulated activated users was 29,310,181, and the average daily number of active users in September 2018 was 13,893,154, up 34.7% and 40.6%, respectively (Source: Huan). Monetization capability was further enhanced with revenue for Internet business achieving approximately RMB202.52 million in the first three quarters of 2018, representing a leap of 205.0% year-on-year.

- **Maintained Industry-leading Position and Gained Recognition for Brand Power**

According to the Sigmaintell data, the Group ranked No.3 in the global TV market with a market share of 11.8% in terms of sales volume in the first half of 2018. According to CMM omni-channel data, it ranked No.3 in the PRC TV market with a market share of 12.6% in terms of turnover in the first three quarters. In August this year, the spring new product C6 of the Group won the highly renowned EISA (EISA Award is highly prestigious in Europe for video, audio and consumer electronics products) - "2018-2019 Best Buy LCD TV" at IFA in Europe, which acknowledges the outstanding picture and sound quality of TCL's TV products. In September this year, the Company was officially included as a constituent stock of the Hang Seng Stock Connect Hong Kong Index. Meanwhile, TCL ranked 79th on the inaugural 2018 Digital 100 list by Forbes, being the only Chinese home appliance brand on the list, and was also named among the 2018 Top 50 Chinese Global Brand jointly released by Facebook and KPMG. The Group's strategy of product and brand enhancement has delivered remarkable results and the Group's brand power has been highly recognized.

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Following the renaming of the Company, the Company has reinforced and strengthened its existing core TV business, while at the same time, it has gradually implemented strategic transformation and business diversification, in order to realize new profit growth opportunities. The Group recorded a satisfactory business performance for the first three quarters of 2018. As a result of continuous growth in its sales volume and turnover, a steady increase in its gross profit margin, and effective expense control, the Group's profitability has been continuously enhanced:

Sales volume of LCD TV sets exceeded 21.12 million sets, raised full-year sales target to 28.30 million sets

The sales volume of LCD TV in the first three quarters and the third quarter maintained rapid growth. In the first three quarters, the Group's LCD TV sales volume soared by 31.1% year-on-year to approximately 21.12 million sets, which represents 82.5% of its initial full-year sales target of 25.60 million sets. The growth in the overseas sales volume was particularly strong, testifying to the success of the Group's strategy for globalization. In the third quarter, the sales volume of the Group's LCD TV increased by 22.1% year-on-year to approximately 7.95 million sets, reaching a quarterly record high.

Turnover continued to rise, with gross profit and gross profit margin increasing year-on-year

The Group's turnover increased by 16.1% year-on-year to a record high of approximately HK\$32.79 billion for the first three quarters. Gross profit rose by 17.7% year-on-year to approximately HK\$4.97 billion, with gross profit margin up 0.2 percentage point to 15.1%. The Group's profitability continued to improve, which was attributable to its continuous effort in cost reduction and efficiency enhancement, the apparent advantages of the economies of scale and effective expense control.

Accelerated implementation of its diversification strategy by launching commercial displays and smart home businesses

Following its smart AV business expansion in the first half of this year, the Group has accelerated implementation of its diversification development strategy and continued to boost the transformation and upgrading for its businesses in the third quarter. The Group actively seized the opportunity to fill the huge demand gap of commercial displays in the new economic era and completed the acquisition of TCL Commercial Information Technology (Huizhou) Co., Ltd. (“CI Tech”) in the third quarter, thereby entering the blue ocean market of commercial displays and achieving “B2B and B2C dual-track development”. Meanwhile, it also announced its industry-leading move – establishing strategic partnership with Sunshine 100 China to create shared smart apartments, propelling the implementation of the leading smart home system in China.

Maintained Industry-leading Position and Gained Recognition for Brand Power

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Overseas Markets

The ongoing effort of the Group in advancing its global strategy to an even greater extent, expanding sales channels and boosting economies of scale have led to the continuous strong growth in sales volume in overseas markets, extending its brand influence, as well as significantly increasing its gross profit margin.

Sales volume: The Group’s LCD TV sales volume in overseas markets grew by 34.5% year-on-year to approximately 13.54 million sets in the first three quarters and rose by 21.3% year-on-year to approximately 5.25 million sets in the third quarter.

- **North American Market:** By accelerating market penetration, the Group achieved 30.7% year-on-year increase in sales volume in the first three quarters. According to the latest NPD market research report, the Group’s market share ranking in terms of sales volume further jumped to Top 2 in North America in July and August this year.

- **Emerging Markets:** The emerging markets maintained on a positive growth track, with the sales volume rising by 38.3% year-on-year in the first three quarters. In particular, Brazilian market recorded a year-on-year sales volume growth by 52.2%. According to the latest GfK report, the Group's market share in terms of sales volume ranked No.3 in the Philippines, No.4 in both Thailand and Vietnam, and No.5 in Australia in terms of sales volume from January to August in 2018.
- **European Markets:** Sales volume surged by 60.3% year-on-year in the first three quarters and a strong sales momentum was shown in France, Germany and Spain. The Group's market share ranking in terms of sales volume moved up one spot to No.3 in France (Source: GfK).

Turnover: In the first three quarters, turnover of LCD TV in overseas markets grew significantly by 32.3% year-on-year to approximately HK\$19.57 billion.

Average selling price: Benefitting from continuous improvement in product mix, average selling price of the LCD TV (excluding ODM business) in overseas markets increased by 1.2% year-on-year in the first three quarters.

Gross profit margin: Benefitting from the decline in panel prices, continuous optimization of product mix and evident effects from the product and brand upgrade strategy, gross profit margin of the Group's LCD TV in overseas markets increased substantially by 1.2 percentage points year-on-year to 12.2% in the first three quarters and by 2.5 percentage points year-on-year to 13.1% in the third quarter. Moreover, the gross profit margin of self-branded products leaped by 2.5 percentage points to 14.6% in the first three quarters and by 3.1 percentage points to 15.3% in the third quarter.

The Group's sales volume in key overseas markets continued to climb in the first three quarters and ranked among the top in different regional markets, and business performance enhanced remarkably year-on-year.

The PRC Market

Devoted to premium product strategy and product mix optimization, the Group has continued to improve its gross profit margin year-on-year in the PRC market in the first three quarters this year.

Sales volume: The Group's LCD TV sales volume in the PRC market increased by 25.4% year-on-year to approximately 7.58 million sets in the first three quarters and by 23.7% to approximately 2.70 million sets year-on-year in the third quarter.

Turnover: The Group's LCD TV turnover in the PRC market dropped slightly by 2.9% year-on-year to approximately HK\$12.97 billion in the first three quarters, mainly due to the significant increase in the proportion of online sales and a decline in average selling price.

Average selling price: The Group's LCD TV average selling price (excluding ODM business) in the PRC market dropped by 6.6% year-on-year in the first three quarters. CMM omni-channel report showed that industrial average selling price in the PRC market decreased by 9.8% year-on-year in the first three quarters.

Gross profit margin: Despite the increase in the proportion of online sales and a decline in average selling price, the Group's gross profit margin of LCD TV in the PRC market rose by 0.3 percentage point to 19.6% in the first three quarters, of which the gross margin of the self-branded products increased by 1.4 percentage points year-on-year to 22.8%.

According to the latest CMM omni-channel data, the brand price index of TCL's TVs for the first three quarters of 2018 jumped from 101 in the corresponding period of the last year to 112, and ranked 2nd place, as compared to 3rd place a year ago.

Internet Business

The Group continued to enhance its platform development and users operation, comprehensively promoted the "Intelligent Manufacturing+ Internet" new business model, deepened "1+1+N" strategic cooperation model and strived to enhance the monetization capacity of the Internet business.

Continued to expand user base and enhanced user loyalty

As of 30 September 2018, the accumulated number of TCL activated smart TV users of the Group increased by 34.7% year-on year to 29,310,181 and the average daily number of active users in the first three quarters increased by 40.6% year-on-year to 13,893,154. The user base of the Internet TV business continued to demonstrate significant growth, of which:

- Video-on-demand business totaled approximately 25.42 million users, increasing by 22.9% year-on-year;
- The number of paid business users reached approximately 4.32 million, skyrocketing by 136.0% year-on-year; and
- Average daily spending time of users on TV reached 5.5 hours, rising by 12% year-on-year. User loyalty was further strengthened by refined user operation.

Greater monetization capability with full-year revenue target raised to RMB260 million

The Group continued to enhance operational capability of its Internet platform, achieving revenue of approximately RMB202.52 million in the first three quarters of 2018, representing a substantial leap of 205.0% from the corresponding period of last year. It has completed 90.9% of its initial full-year target of RMB220 million, of which, revenue of advertising business amounted to approximately RMB92.12 million, while revenue of video-on-demand and membership business amounted to approximately RMB84.89 million, representing a significant increase of 137.2% and 208.9% year-on-year, respectively. The monetization capability of its Internet business was further enhanced.

Outlook

In the first three quarters of 2018, the Group saw notable growth in scale of sales and year-on-year improvement of its gross profit margin. Expenses were under control and profitability capability was enhanced. Accordingly, the Group has raised its full-year sales target from 25.60 million sets to 28.30 million sets. Meanwhile, prompted by the outstanding performance and growing monetization capability of its Internet business in the first three quarters, the Group has also raised the full-year revenue target of Internet business from RMB220 million to RMB260 million.

In the future, while implementing its strategic transformation and promoting diversified business development, the Group will focus on reinforcing and strengthening its existing core TV business. The Group will remain committed to its premium product strategy as well as continuously enhance its product competitiveness in the PRC market. It will further push forward its business globalization strategy and proactively penetrate in overseas markets by maintaining market competitiveness in North and South America, growing its market share and profitability in Europe and Southeast Asia, and exploring the emerging markets such as India and Russia, in an effort to grow its worldwide market share, strengthen the TCL brand power and enhance its global business layout. Meanwhile, the Group will continue to invest in research and development, accelerate the development of AI and Internet applications, thereby empowering itself to become an international conglomerate in the electronics industry and creating value for shareholders.

Financial Highlights

		2018	2017		2018	2017	
		Q1-Q3	Q1-Q3	Change	Q3	Q3	Change
LCD TV	Overall	21,123	16,115	31.1%	7,949	6,511	22.1%
Sales Volume ('000 sets)	The PRC	7,585	6,046	25.4%	2,696	2,180	23.7%
	Overseas	13,538	10,068	34.5%	5,253	4,332	21.3%
LCD TV	Overall	1,539	1,747	(11.9%)	1,454	1,723	(15.6%)
Average Selling Price	The PRC*	2,206	2,363	(6.6%)	1,868	2,395	(22.0%)
(HK\$)	Overseas*	1,719	1,699	1.2%	1,715	1,781	(3.7%)
Turnover (HK\$ million)	Overall	32,789	28,248	16.1%	11,739	11,225	4.6%
	The PRC	13,164	13,427	(2.0%)	4,360	4,815	(9.4%)
	Overseas	19,625	14,821	32.4%	7,379	6,411	15.1%
Gross Profit (HK\$ million)	Overall	4,966	4,221	17.7%	1,746	1,594	9.5%
	The PRC	2,560	2,597	(1.4%)	770	906	(15.0%)
	Overseas	2,406	1,623	48.2%	976	688	41.7%
Gross Profit Margin (%)	Overall	15.1	14.9	0.2 p.p.	14.9	14.2	0.7 p.p.
	The PRC	19.4	19.3	0.1 p.p.	17.7	18.8	(1.1 p.p.)
	– The PRC*	22.6	21.4	1.2 p.p.	20.4	20.2	0.2 p.p.
	Overseas	12.3	11.0	1.3 p.p.	13.2	10.7	2.5 p.p.
	– Overseas*	14.6	12.0	2.6 p.p.	15.5	12.2	3.3 p.p.

* Excluding ODM Business

Enhancement in Product Mix and Brand Index

	The PRC Market		Overseas Markets	
	(Excluding ODM Business)		(Excluding ODM Business)	
	2018	2017	2018	2017
	Q1-Q3	Q1-Q3	Q3	Q3
Proportion of smart TV sales volume	81.3%	74.7%	83.5%	77.4%
Proportion of 4K TV sales volume	51.9%	40.4%	37.2%	23.2%
Proportion of 55 inch or above products sales volume	41.3%	35.3%	24.8%	18.7%
Proportion of online sales volume	34.5%	22.4%	N/A	N/A
Average size	46.7"	45.4"	41.9"	39.3"
Brand index (<i>Note</i>)	112	101	N/A	N/A

Note: CMM omni-channel data

Internet Business

	2018	2017
Internet business revenue in Q1-Q3 (RMB) ⁽¹⁾	202.52 Million	66.40 Million
Accumulated number of TCL activated smart TV users as of 30 September ⁽²⁾	29,310,181	21,764,819
Average daily number of active users in September ⁽³⁾	13,893,154	9,875,658
Average spending time of users on TV in Q1-Q3 (hours)	5.5	4.9

⁽¹⁾ Upon completion of the capital increase of Shenzhen Thunderbird Network Technology Company Limited (“Thunderbird Technology”) on 1 September 2017, Thunderbird Technology is no longer the subsidiary of the Company. For details, please refer to the Company’s announcements dated 2 July 2017 and 1 September 2017.

⁽²⁾ Number of TCL activated smart TV users refers to the number of users who use the internet TV web service for more than once.

⁽³⁾ Average daily number of active users refers to the number of unrepeatd individual users who visit within 7 days.

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 nine months ended 30 September 2018. 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, 26 October 2018

As at the date of this announcement, the Board comprises 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. HUANG Xubin 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.