

TCL Electronics Announces Full Integration of TCL Communication to Accelerate the Implementation of AI x IoT Strategy

HONG KONG - 29 June 2020 - TCL Electronics Holdings Limited ("TCL Electronics" or "the Company", HKSE stock code: 01070.HK) announced today that it would be acquiring a 100 percent stake in TCL Communication Technology Holdings Limited ("TCL Communication"), which is a fully-owned subsidiary of TCL Industries Holdings Co., Ltd. ("TCL Industries"), with a consideration of CNY 1.5 billion paid in cash. In addition, the Company revealed that it would sell its full stake in Moka International Limited (Moka International, which mainly engages in ODM business for TVs) to TCL Industries for CNY 2.5 billion in cash. The deals will net the Company CNY 1 billion in cash, which will help further grow market share of the TCL brand business, increase R&D investment in "AI x IoT" and expand value-added service in Internet business, in addition to a focus placed on the Company's smart commercial display business.

"These transactions allow us to further the acceleration of implementing 'AI x IoT' strategy with smart displays as the core" said Kevin Wang, CEO of TCL Electronics. "This enables us extend our smart scenarios from home to outdoor mobile environments, adding commercial settings as well, to offer our customers a complete smart ecosystem."

Wang added: "With leading 2G-5G technologies and numerous patents, TCL Communications will enhance TCL Electronics' leading advantages in branded TV product technology, help it to achieve the premium audio and video experience, and become a "Large-screen Sound and Picture Expert that Understand you". Its outstanding 5G radio frequency technology, software operating system, smart camera and video technology, edge computing, intelligent connection and sensor application technology will further advance the leading position of the Company's brand TV business in the world. With TV's intelligence and interactive capabilities greatly improved, the large-screen value-added service categories has also expanded from traditional videos and advertising services to online education, AI fitness, remote eldercare, large-screen home e-commerce services, etc., which are going to explore the brand new field of Internet value-added services. In addition, TCL Communication's mobile phone business has leading advantages in the overseas markets, meanwhile TCL Electronics' overseas brand-TV business has a better growth rate among peers. The two companies will have great synergies in sales channels, brand promotion and user services. What's more, the Company is expected to be fully benefited from the global trend of buying 5G mobile phones, thus 5G+8K will become an important engine for the Company's future business growth."

TCL's "AI x IoT" strategy providing infrastructure for the smart ecosystem

TCL Electronics is the only Chinese enterprise in the industry with unique cutting edge in vertical integration. It has synergies with CSOT and advanced display technologies such as

QLED, Mini LED, and 8K. According to its annual results for the year ended 31 December 2019, the sales volume of TCL brand TV increased by 16.5 percent year-on-year to 20.64 million sets, with its market share ranking third in the global TV market (data source: IHS). In addition, sales volume of TCL brand TV ranked second in the U.S. and other markets. In terms of financial results, the Company's revenue increased by 3.1 percent to HK\$46.99 billion, while its profit attributable to owners of the parent surges 1.2 times to HK\$2.28 billion. At the same time, its profit attributable to owners of the parent after deducting one-time non-operating gain was HK\$1.07 billion, up by 35 percent year-on-year. In terms of Internet business, the Company deepened its cooperation with Roku, Google and Netflix in overseas and gained a sustainable revenue stream of HK\$210 million from overseas Internet business for the first time. In 2019, the revenue of Falcon Network Technology reached HK\$546 million, remarkably up by 50.7 percent year-on-year. Since April 2019, Falcon Network Technology has been consolidated and the consolidated total revenue of Internet business of the Company in 2019 recorded HK\$626 million; in addition, operating profit of the Company's Internet business reached HK\$317 million. As one of the world's leading mobile device companies, TCL Communication provides Internet applications and services to its customers. Its multicategory product lines, including mobile phones, smart tablets and smart wearables, will complement the Company's inherent TV-based product line and realize product synergies in various vertical scenarios for home and personal users and enhance the users' experience.

The acquisition of TCL Communication is a major move as the Company pursues its "AI x IoT" strategy. As a result, the Company's will strengthen the synergies of all-scenario smart display ecosystem among different smart terminals, including large-screen products, small-screen gadgets, and wearable sub-screens. In 2019, the sales volume of the Company's branded TVs hit 20.64 million sets, and that of TCL Communication's mobile terminals reached 27.80 million sets. The Company's total number of smart terminals is expected to increase to more than 70 millions. By combining OTT terminals and mobile terminals, the Company can create additional interactive scenarios, for example, information flows across different screens, a unified content service platform, and a mega membership system. Furthermore, TCL Communication will not only strive for device innovation and further development for various scenarios in the customer-targeted smart device domain through technology research and development empowerment for smart TVs, but will also build a better fully-connected infrastructure with smart router and smart TV (smart screen), and build an edge intelligence center for smart home. Such strategy is expected to provide users with more value-added services. It may also accelerate the Company to become a leader in smart products and value-added services provider among peers, thus it may expand the Company's revenue stream from value-added services. By setting up an all-scenario smart ecosystem, the Company can provide users with a seamless experience across multiple scenarios. That will push its "AI x IoT" strategy to a deeper level.

China's commercial display market is on an upward trajectory, and application scenarios keep emerging. In 2019, the total market size for 8 main categories of commercial displays was CNY 78.9 billion. This figure is expected to top CNY 100 billion in 2020 and hit CNY 150 billion in 2023, with a compound annual growth rate of 25 percent. In developing smart

commercial displays, TCL Communication eyes on major scenarios such as remote work, smart conferencing, education, business, dispatching, medicine, and transportation. With TCL Communication on board, TCL Electronics will be better positioned to implement its “1+1+N” strategic planning (hardware platforms + software platforms + sub-scenario applications) for smart commercial displays. TCL Communication will function as a hub connecting the Company's smart large screens and smart commercial displays. It will help TCL Electronics to explore into more sub-scenarios. Users can be benefited from multi-screen interaction in both work and life, which means more efficient corporate management and more convenient services for daily life.

Moka International mainly engages in ODM business for TVs. However, there are significant differences between the ODM business and the TCL brand products business in terms of business models and management of operations, which can easily lead to inefficient resource allocation. The separation of proprietary brands business and the ODM business is beneficial to the Company's management efficiency and avoid direct competition with ODM customers. Furthermore, the divestment of the ODM business is conducive to the Company's future focus on the development of the TCL brand and is expected to further strengthen the market advantages of TCL's proprietary brands. The disposal will make it easier for the Company to focus on technologies, products, and integrated application scenarios for the core TCL branded product lines. Moreover, it will help the Company allocate more resources to high-growth, high-profit Internet operation and services. Therefore, the Company can concentrate on the development of hardware + software + technology under its brands, paving the way for a rosier future.

TCL Communication leads the deployment of mobile devices and smart connected products by setting up global marketing network

TCL Communication has established an international business network underpinned by six core sales regions: North America, Latin America, Europe, Middle East and Africa, Asia Pacific and China. They have also established long-term and solid strategic partnerships with leading global carriers and retail giants, including Vodafone, Orange, Walmart and Best Buy.

Beyond its core mobile handset business, TCL Communication has formed a comprehensive product portfolio that includes tablets, smart routers, smart CPE devices, smart monitoring and tracking devices, personal wearables, AR/VR and IoT devices. Its products and services are available in over 150 countries. According to IDC report, in Q1 2020, TCL's mobile phone business is in the top four in terms of shipments in North America and Australia. The global shipments of TCL Communication's tablets increased significantly when compared with the same period of last year, of which ranking third in the North American tablet market. At the same time, TCL Communications has been involved in R&D of 5G technology since 2015, and is one of a few communication firms across the globe whose holds patents for 2G-5G core technologies. In early 2016, TCL Communications established dedicated 5G laboratories in France and China. At present, there are more than 100 applications for its 5G technology patents. At the end of 2019, its first 5G smartphone won the qualifications of the

world's mainstream mobile operators such as TMO and Verizon in the US, Vodafone, EE, H3G and TIM in Europe, and KDDI in Japan.

According to the GSMA report, global mobile operators will have capital expenditures of US\$1.1 trillion between 2020 and 2025, of which 80 percent will be used for 5G networks. The 5G connection rate in North America is expected to reach 48 percent by 2025, far exceeding the global average of 20 percent. North America is one of the dominant markets for TCL Communications. TCL Communications' 5G products have cooperated with multiple North American operators since 2020. At the same time, it has expanded to other Tier 2 operators and open channels based on operator customized models. TCL Communications will take advantage of the cost-efficiency of supply chain integration, and seize new growth opportunities by taking chance of buying 5G mobile phones trend.

The sudden outbreak of COVID-19 in 2020 significantly increased global demand for products related to telecommuting, remote education, and at-home entertainment. The telecom operators that TCL Communication works with in Europe, the U.S., and Australia have seen their Q2 order books for smart connected devices swell more than 200 percent. In 2019, global shipments of smart home devices were 815 million sets. This figure is expected to maintain a compound annual grow rate of 14.4 percent until 2023, when it will reach 1.396 billion sets. As TCL Electronics implements its strategy for a smart ecosystem and comes up with more products, it will Hoover up more market share in the field of smart connected devices.

Creating channel and technology synergies while improving profitability and core competitiveness

TCL Electronics and TCL Communication are highly supplementary in terms of overseas market coverage and sales channels. It makes good sense for them to further explore global markets hand in hand. In 2019, the Company posted an overseas sales volume of branded TV of 13.46 million sets, while TCL Communication more than 25 million if its devices. The Company's branded TVs have established a high brand awareness and a good reputation in overseas. TCL Communication can leverage that to enter more sales channels. The Company can make use of TCL Communication's ties with North American and Europe's key telecom operators to set up comprehensive, stable customer relations for smart terminals. Thus, the Company can further penetrate overseas markets and build a barrier to competition. The two companies will develop overseas major markets together in order to further snap up market share worldwide of their TVs and mobile phones.

The integration of the Company's and TCL Communication's technologies can accelerate the Company's product layout and iteration. This will also create more distinct competitive advantages than other traditional home appliances enterprises. On the one hand, the Company's technological advantages in displays enhance TCL Communication's product competitiveness, allowing TCL Communication to become one of the very few mobile phone manufacturers with its screen display technologies among its peers. On the other hand, TCL Communication is one of the world's few communication firms that have core 5G technologies,

and its technical capabilities on communication devices like mobile phones can be ported to the Company's new products, such as smart large screens, smart home products, and smart commercial displays. That will help the Company move faster in conducting R&D to develop more business users. A user-centered agile development and delivery system will take shape. Furthermore, it will bring marginal benefits and technical empowerment for the Company's electronics products.

The disposal will greatly improve the Company's gross profits, assets, and cash flow. TCL Communication's gross margin reached 21.6 percent in 2019. Upon completion of the acquisition, the Company's overall gross profit margin is expected to increase to nearly 20 percent, up by 2.6 percentage points when compared with the Company's audited gross profit margin in 2019, which will further enhance the resilience in the Company's profit. The Company is expected to see its asset scale and revenue surging, and its net assets will be up by HK\$2.06 billion. Moka International will cease to be a subsidiary of the Company and the financial results of Moka International will no longer be consolidated into the Company's financial statements. The expected one-time gain of approximately HK\$1.979 billion from the disposal will have a direct positive impact on TCL Electronics' earnings. In addition, the Company and TCL Communication have certain segments of supply chain that are in common, therefore business transformation is conducive to the optimization of the structure of logistics, capital flow and information flow, further enhancing the Company's efficiency and profit growth potential.

These 2 deals are not only important moves of the Company's "AI x IoT" strategy, but also bring business globalization and diversified development to TCL Electronics, in order to build a significant layout on all-scenario smart products + services. Besides taking lead in large screens, picture quality, and sound-quality in global, the Company is going all out to develop "AI x IoT", smart cameras, connections between 5G and edge intelligence, self-developed smart TV OS and smart interaction capabilities, with the aim of becoming a "large-screen sound and picture expert that understands you". The Company devotes to being a global leading intelligent technology enterprise by giving prominence to smart home products, smart commercial displays, and mobile-scenario devices plus services.

TCL Electronics expects its sales volume and revenue of major products to maintain double-digit growth in 2020 in spite of the pandemic

Since 2020, the Company has increased investment in online sales channels. Its online sales volume from February to May in the Chinese market increased by 57% year-on-year. According to the CMM's data, in the 618 e-commerce festival, between June 1 and June 21, rankings of TCL Electronics' online sales volume and revenue both rose to second, and ranked first among traditional TV brands (excluding Internet TV brand). Its offline sales volume also ranked top during the period.

As of early June, the market share in terms of sales volume in United States retail market of TCL brand TVs was ranked top two, reaching 17.4%, up by 2 percentage points year-on-year, of which the highest weekly market share exceeded 20%. In addition, sales volume in

Europe and emerging markets from January to May increased by 40.4% and 5% year-on-year respectively. (Source: NPD)

The Internet business was positively affected by “staying at home under pandemic”, and all indicators have achieved substantial growth. From January to April, the number of Falcon Network Technology’s existing subscribers has significantly increased by 122% year-on-year. Its revenue reached HK\$270 million, remarkably up by 67.6% year-on-year, and its net profit reached HK\$103 million, substantially up by 103.0%.

Although the global market will be affected by the pandemic in 2020, the Company expects to maintain double-digit growth in sales volume and revenue of major products in 2020 without TCL Communication business. Its sales volume and revenue will be better if TCL Communication business consolidated into the Company’s book.

About TCL Electronics

Headquartered in China, **TCL Electronics Holdings Limited** (stock code: **01070.HK**, incorporated in the Cayman Islands with limited liability) is one of the leading players in the global TV industry, and is engaged in the research and development, manufacturing and distribution of consumer electronic products. The Company proactively promoted intelligentisation, globalisation, R&D innovation and “AI x IoT” strategic transformation, focused on developing smart TV, Internet services, smart home and commercial display systems. The Company will continuously increase its investment in R&D to develop advanced display technologies such as QD, Mini LED and 8K, so as to further enhance its product competitiveness. At the same time, in order to become a fast-growing intelligent technology enterprise with constant revenue generated from user operation, the Company endeavours to develop its business in the field of IoT by establishing a household TV-centred IoT ecosystem. According to the latest Sigmaintell report, the market share of the Company in terms of sales volume ranked No.2 in the global TV markets in 2019. TCL Electronics is included in the eligible shares list of the Shenzhen-Hong Kong Stock Connect Scheme, Hang Seng Stock Connect Hong Kong Index, Hang Seng Composite MidCap & SmallCap Index and Hang Seng Corporate Sustainability Benchmark Index. For more information, please visit its website: <http://electronics.tcl.com>.

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