

TCL

TCL 電子控股有限公司

TCL ELECTRONICS HOLDINGS LIMITED

(Stock Code: 01070.HK)

X10 QLED 8K TV

臻享 **IMAX** 8K 私人影院

2018 Annual Results

(Audited annual results for the year ended 31 December)

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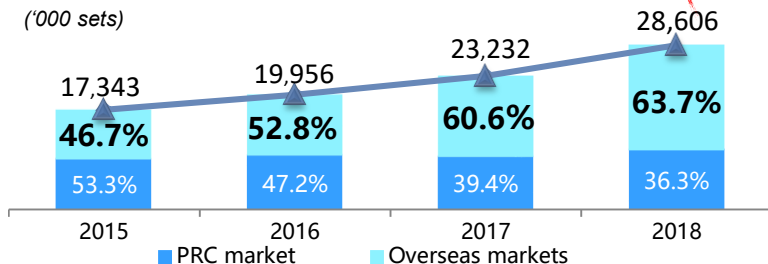
Financial Highlights

Historical Results Highlights

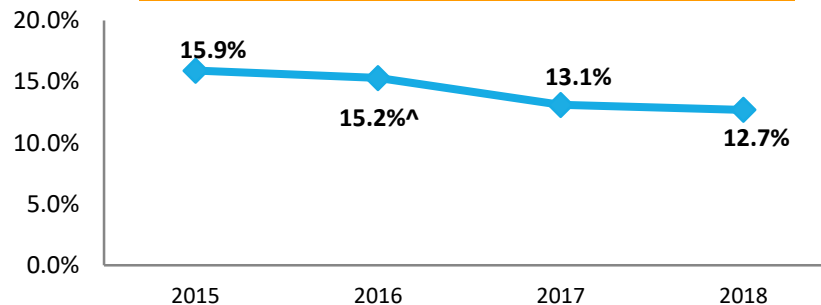
TCL

Total Sales Volume and the Proportion of Overseas Sales Volume Rising Year by Year

Leaps to Global Top 2*



Stringent Cost Control



Turnover and Net Profit Continues to Rise Stably

FY2016



FY2017



FY2018



Turnover **HK\$33.36B**

Profit attributable to Owners of the Parent **HK\$183M¹**

Profit attributable to owners of the parent after extraordinary items **HK\$183M¹**

Turnover **HK\$40.82B**

Profit attributable to Owners of the Parent **HK\$815M²**

Profit attributable to owners of the parent after extraordinary items **HK\$595M³**

Dividend Payout Ratio **40%**

Turnover **HK\$45.58B**

Profit attributable to Owners of the Parent **HK\$944M⁴**

Profit attributable to owners of the parent after extraordinary items **HK\$778M⁵**

Dividend Payout Ratio **45%**

1. Based on the principle of prudence, a full provision of HK\$170 million for receivables of energy-saving subsidies was made during the period

2. Including one-off gain of HK\$220 million from the completion of capital increase of Falcon Technology

3. One-off gain excluded

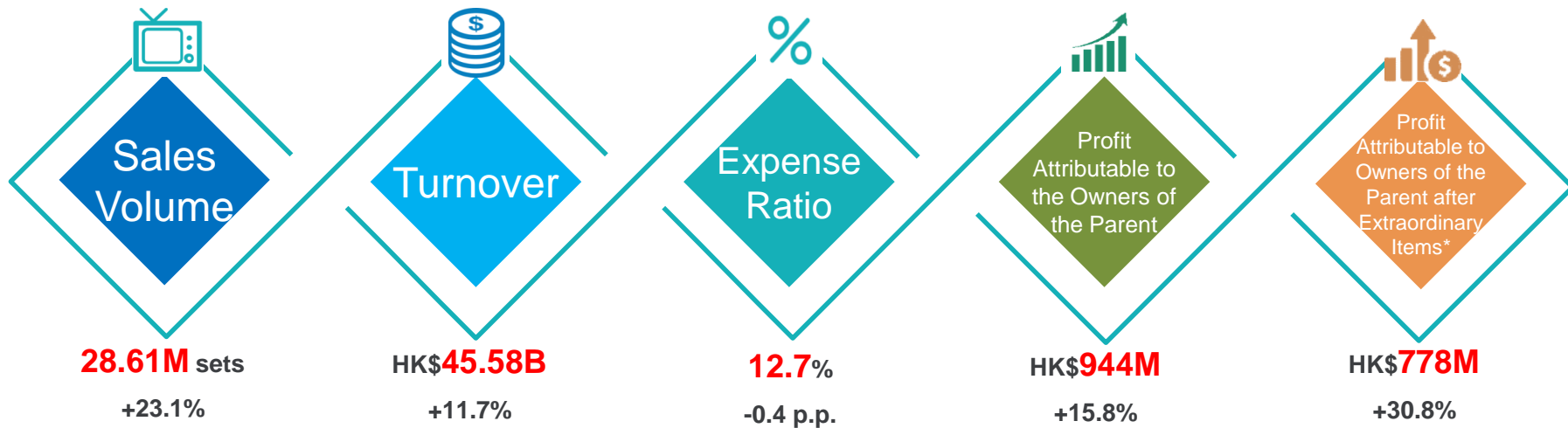
4. Including one-off gain of HK\$166 million recorded as a result of the asset transfer

5. One-off gain excluded

Annual Results Highlights

TCL

- Sales volume:** Annual sales volume was 28.61 million sets, exceeding the upwardly revised full-year target, and hitting a historical high; total overseas sales volume rose significantly by 29.5% year-on-year
- Turnover:** Annual turnover rose by 11.7% to HK\$45.58 billion year-on-year, driven by strong growth in sales volume, hitting a historical high
- Expense ratio:** Thanks to cost reduction and efficiency enhancement, expense ratio decreased steadily to a record low since 2003
- Profit attributable to owners of the parent:** With continuous enhancement in profitability, profit attributable to owners of the parent rose by 15.8% to HK\$944 million, hitting a historical high
- Profit attributable to owners of the parent after extraordinary items:** Both brand power and product competitiveness improved, profit attributable to owners of the parent after extraordinary items surged by 30.8% year-on-year, setting a record high since 2013



Sales Volume hit a historical high with a 5-year highest growth rate

New record high

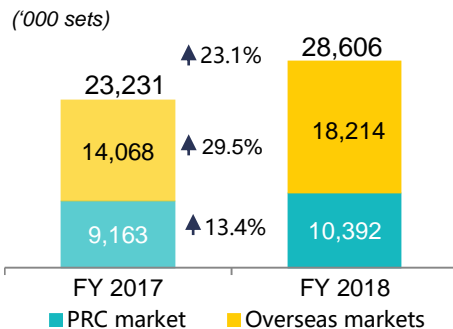
Lowest level since 2003

New record high

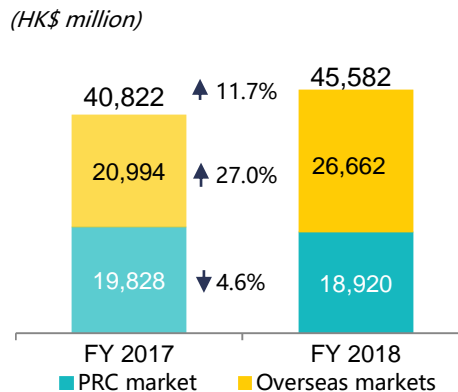
New record high since 2013

*one-off gain excluded
2018 Annual Results

LCD TV Sales Volume



Turnover



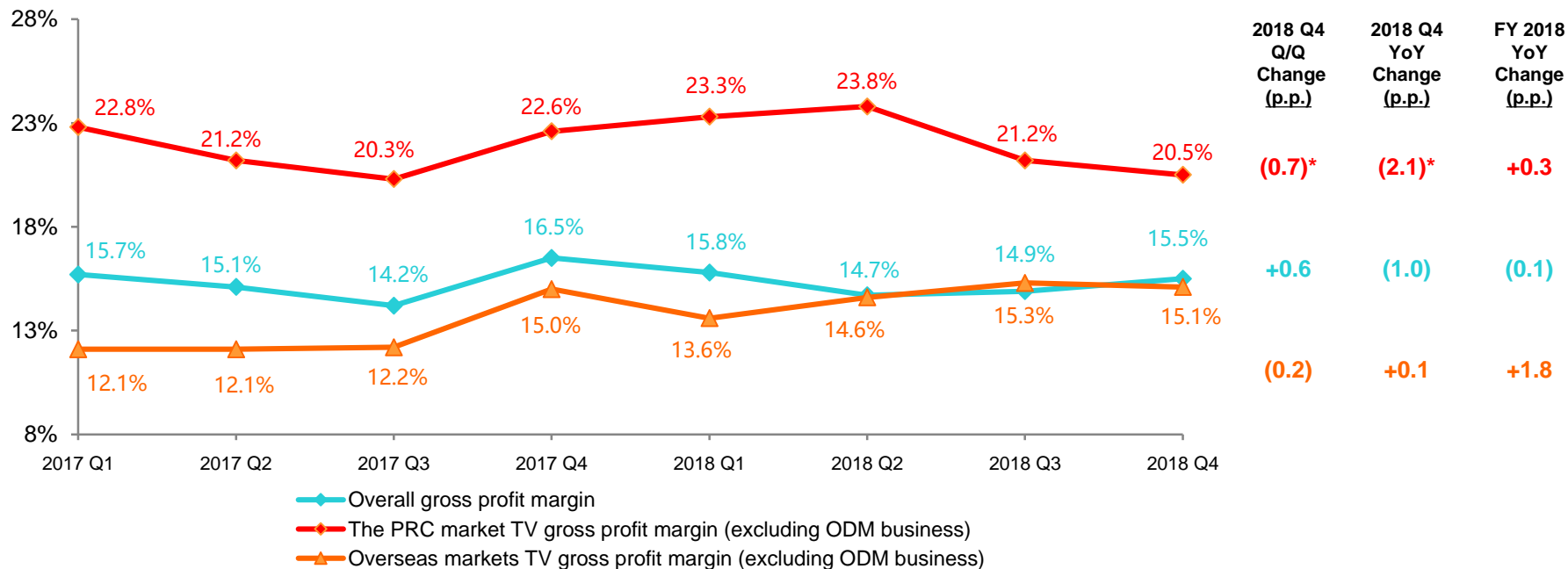
<i>(HK\$ million)</i>	FY 2018	FY 2017	Change	2018 Q4	2017 Q4	Change
Turnover	45,582	40,822	+11.7%	12,792	12,574	+1.7%
Gross profit margin (%)	15.3	15.4	(0.1 p.p.)	15.5	16.6	(1.1 p.p.)
Expense(%)	12.7	13.1	(0.4 p.p.)	12.8	12.6	+0.2 p.p.
EBITDA ¹	1,407	1,276	+10.3%	266	518	(48.6%)
Net profit	935	797	+17.3%	258	301	(14.3%)
Net profit margin(%)	2.1	2.0	0.1 p.p.	2.0	2.4	(0.4 p.p.)
Profit attributable to the owners of the parent ²	944	815	+15.8%	263	305	(13.8%)
Basic earnings per share ³ (HK cents)	42.63	47.43	(10.1%)	11.68	17.70	(34.0%)
Proposed full year dividend per share ⁴ (HK cents)	19.18	18.97	+1.1%	N/A	N/A	N/A

- EBITDA is defined as profit before deduction of finance costs, income tax, depreciation and amortization, excluding the Group's share of the profits and losses of the joint venture and associates
- Profit attributable to owners of the parent after extraordinary items rose significantly by 31% in 2018
- Owing to the dilution effect of the rights issue in 2018
- High dividend payout ratio of 45% for FY 2018

Gross Profit Margins

Product mix continued to optimize; Overseas markets' gross profit margin for 2018 rose by 1.8 p.p. YoY

Gross Profit Margins (by quarter)

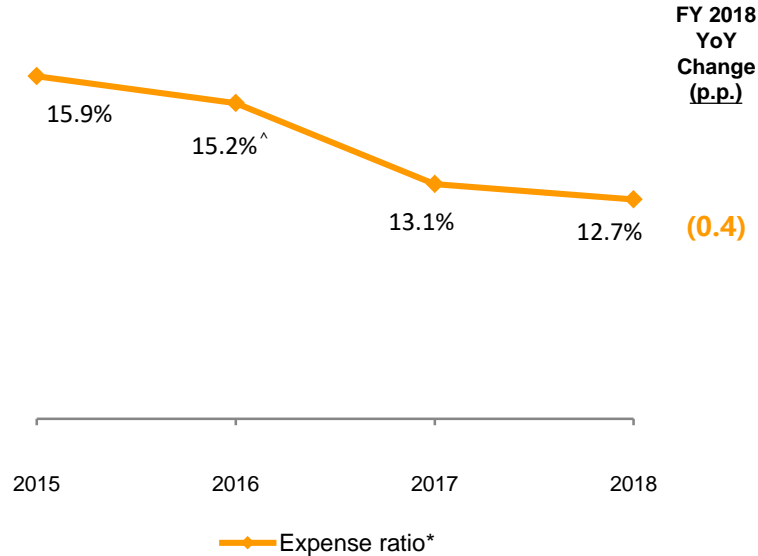


* Mainly due to the significant increase in the proportion of online sales

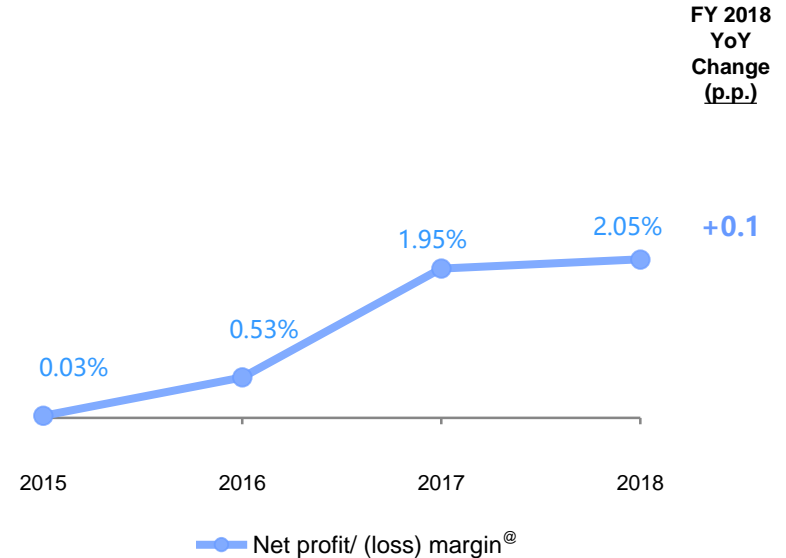
Expense Ratios and Net Profit Margins

Thanks to cost reduction and efficiency enhancement, apparent advantages of economies of scale, overall expense ratio decreased significantly, profitability continued to improve

Expenses Ratios (by year)



Profit Margins (by year)



[^] Restated

* Expense ratio = (Selling and distribution expense + Administration expenses) / Turnover

[@] Net profit / (loss) margin = Net profit / (loss) / Turnover

Key Financial Indicators

Thanks to focus on efficiency improvement and strong bargaining power in sales channels, cash conversion cycle continued to improve

	31 December 2018	31 December 2017	Change
Inventory turnover (days) ¹	44	46	(2)
A/R turnover (days) ¹	46	50	(4)
A/P turnover (days) ¹	79	78	+1
Cash conversion cycle (days)	11	18	(7)
Current ratio (times)	1.3	1.2	0.1
Gearing ratio (gross)(%) ²	11.4	38.4	(27.0 p.p.)
Gearing ratio (net)(%) ³	0 ⁴	0 ⁴	-

¹ The above turnover days are calculated based on the average balances for a 12-month period

² Gearing ratio (gross) = Total interest-bearing borrowings / Equity attributable to owners of the parent

³ Gearing ratio (net) = Net borrowing / Equity attributable to owners of the parent. Net borrowing = Total interest-bearing borrowings - Cash and bank balances - Pledged deposits

⁴ As at 31 December 2017 and 31 December 2018, gearing ratio (net) was 0% as the Group's cash and bank balance was higher than the total interest-bearing borrowings

Balance Sheet Highlights

Sound financial position

TCL

(HK\$ million)	31 December 2018	31 December 2017	Change
Non-current assets	4,230	3,354	+26.1%
Current assets	23,971	22,710	+5.6%
- Trade receivables	4,882	6,466	(24.5%)
- Cash and bank balance	6,742	5,910	+14.1%
Current liabilities	18,329	18,330	-
Net current assets	5,642	4,380	+28.8%
Net assets	9,780	7,697	+27.1%
Net assets value per share* (HK\$)	4.19	4.37	(4.1%)

* Owing to the dilution effect of the rights issue in 2018



Business Review

Global and the PRC Market Shares and Rankings

Chinese brand ranks global top 2 in terms of TV shipment for the first time

Global TV Market Share of Shipment

Ranking	Brand	FY 2018	FY 2017
1	Samsung	16.6%	18.3%
2	TCL	11.6%	10.0%
3	LG	11.3%	12.0%
4	Hisense	7.0%	6.5%
5	Skyworth	6.0%	6.1%
6	Sony	4.8%	5.5%
7	Sharp	3.7%	4.0%

(Source: Sigmaintell)

The PRC TV Market Share of Turnover

Ranking	Brand	FY 2018	FY 2017
1	Hisense	17.4%	15.9%
2	Skyworth	14.5%	13.3%
3	TCL	12.8%	12.1%
4	Changhong	9.0%	9.6%
5	Mi	8.3%	4.0%
6	Sharp	6.5%	8.4%
7	Konka	6.3%	6.7%
8	Sony	6.1%	5.6%
9	Haier	5.5%	5.4%
10	Samsung	4.5%	6.3%

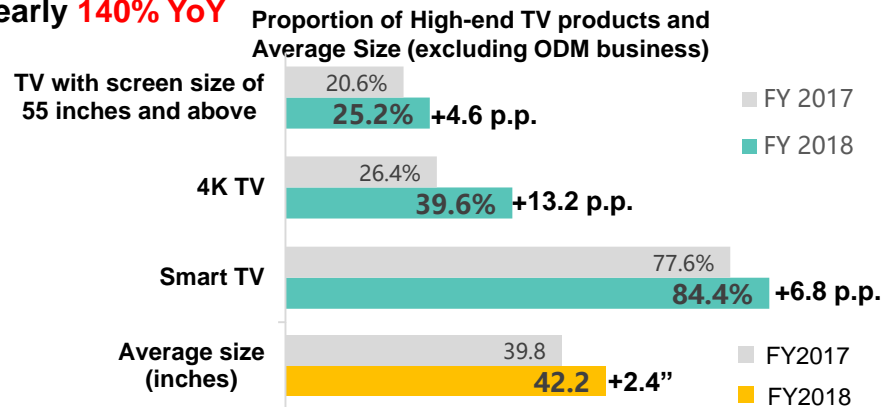
Source: CMM omni-channel data

TV Business in Overseas Markets

TCL

Successful implementation of globalization strategy, overseas markets sustained strong growth momentum, operating results soared by nearly **140% YoY**

(HK\$ million)			
Including ODM business	FY 2018	FY 2017	Change
Turnover	26,602	20,949	+27.0%
Gross Profit	3,361	2,382	+41.1%
Gross Profit Margin	12.6%	11.4%	+1.2 p.p.
Operating Results	1,123	477	+135.4%



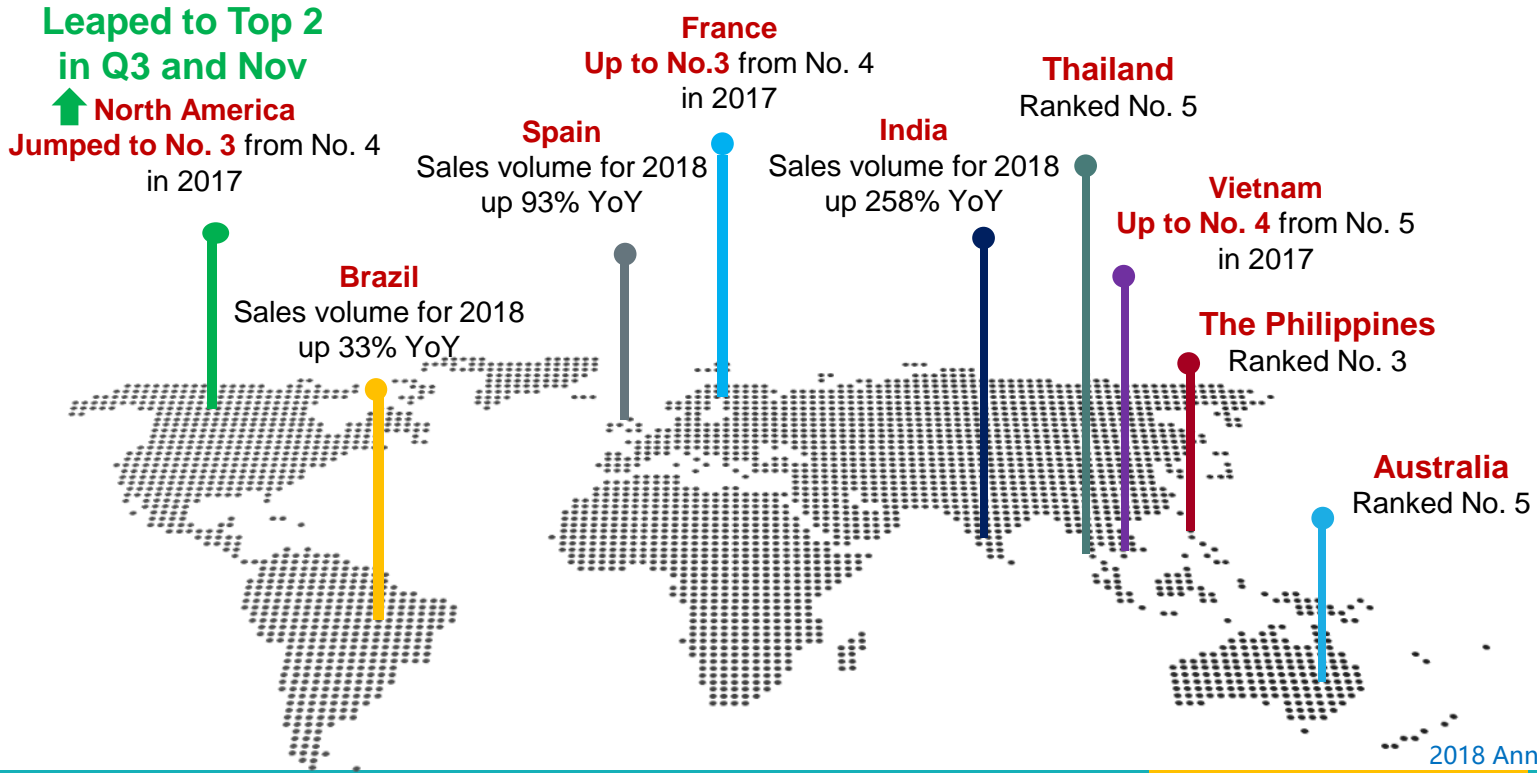
- Sales Volume:** LCD TV sales volume for 2018 **surged by nearly 30% year-on-year to 18.21 million sets**
 - ✓ **North American market** sustained competitive advantage, sales volume **increased by 41.8% year-on-year; market ranking for sales volume in Q3 and November rose to the second***
 - ✓ **Emerging markets** remained on a rapid growth track, sales volume **increased by 30.7%** year-on-year, mainly driven by strong growth in India, Southeast Asia and Brazil
 - ✓ **European markets** sales volume **soared by 43.1%** year-on-year, with France, Germany, Italy and Spain exhibiting significant increases
- Turnover:** LCD TV turnover was **up by 27.0% year-on-year to HK\$26.60 billion**
- Gross Profit Margin:** improved by 1.2 p.p. YoY to 12.6%; **of which self-branded products rose by 1.8 p.p. year-on-year to 14.7%; increased by 0.1 p.p. year-on-year to 15.1% in Q4**
- Operating Results:** **improved significantly by 135.4% year-on-year to HK\$1,123 million;** profitability notably enhanced

*Source: NPD

TV Business in Overseas Markets

Continue to develop key overseas markets and explore new markets, demonstrating competitive advantages. TCL's market share ranking **leaped to Top 2** in Q3 and November in North America

FY 2018 market share rankings in terms of sales volume (except Brazil, Spain and India)
(Source: GfK, except North America from NPD)



Joins hands with CSOT to build TCL's first integrated smart manufacturing industrial park overseas

TCL India Integrated Smart Manufacturing Industrial Park

Ground breaking in Dec 2018

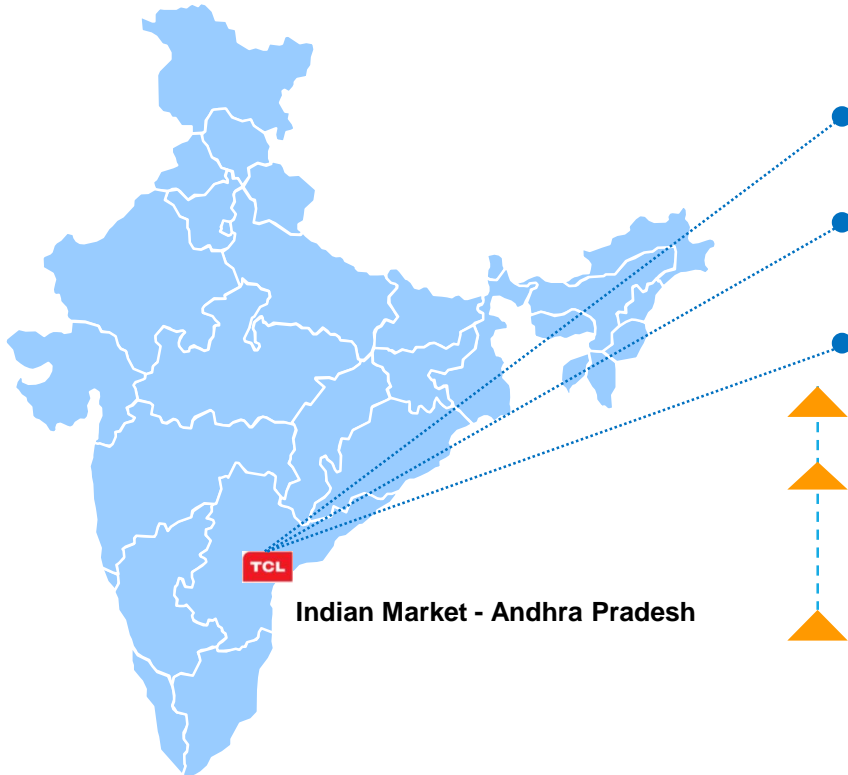
Annual production capacity of **8 million** large-sized TV screens, 30 million small-sized mobile screens and **6 million** 32-inch to 65-inch TV sets

Serves the TCL brand and provides ODM services to other brands rooted in the Indian market

With a huge potential, the Indian market is a strategic position in TCL's overseas deployment

To enter the Indian market with CSOT, TCL Electronics will further exert great advantages of whole industrial chain. All-rounded coverage from production to sales enhances its integrated competitiveness in the Indian market.

TCL TV entered the Indian market in 2016, currently covering about 3,000 outlets including:



Indian Market - Andhra Pradesh



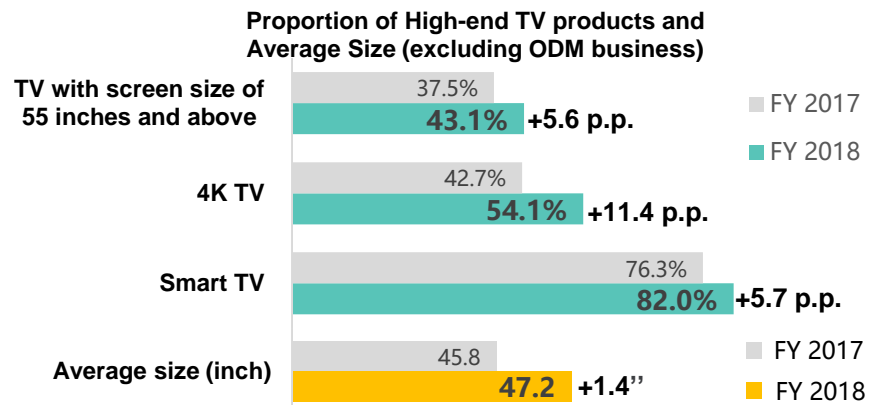
TV Business in the PRC Market

TCL

Sales volume was up 13.4% YoY, outperforming the industry average;

Proportion of online sales and mid-high end products increased significantly

* Including ODM business	FY 2018	FY 2017	Change
Sales Volume (000 sets)*	10,392	9,163	+13.4%
- Proportion of online sales for self-branded products	37.2%	26.2%	+11 p.p.
Turnover (HK\$ million)*	18,371	19,774	(7.1%)
Gross Profit Margin*	19.2%	19.7%	(0.5p.p.)



Sales Volume: According to CMM's report, sales volume of the PRC TV market in 2018 decreased by 1.6% year-on-year, while the Group's LCD TV sales volume increased by 13.4% year-on-year to 10.39 million sets, outperforming the industry average

➤ Proportion of the Group's online sales volume surged by 11 p.p. from 26.2% in 2017 to 37.2% in 2018; CMM data revealed that TCL ranked top 3 in terms of online sales revenue

Turnover: LCD TV's turnover was HK\$18.37 billion

➤ With continuous optimization of product mix, the proportion of sales volume for mid-to-high-end products X, C, P series of self-branded in 2018 increased significantly by 12 p.p. year-on-year

Gross Profit Margin: Gross profit margin remained steady, decreasing by 0.5 p.p. year-on-year to 19.2%, of which gross profit margin of self-branded products was up 0.3 p.p. to 22.1%

Brand price index of LCD TV in the PRC market *

FY 2017			FY 2018		
1.	Hisense	110	1.	Hisense	115
2.	Skyworth	105	2.	TCL	110
3.	TCL	102	3.	Skyworth	105

Curved and 4K TV in the PRC Market *

Market share for FY2018



Curved

34.4%

Remained **No.1**



4K

13.2%

Ranked **No.3**

* Source: CMM

Operating capability has been continuously enhanced with notable monetization capability

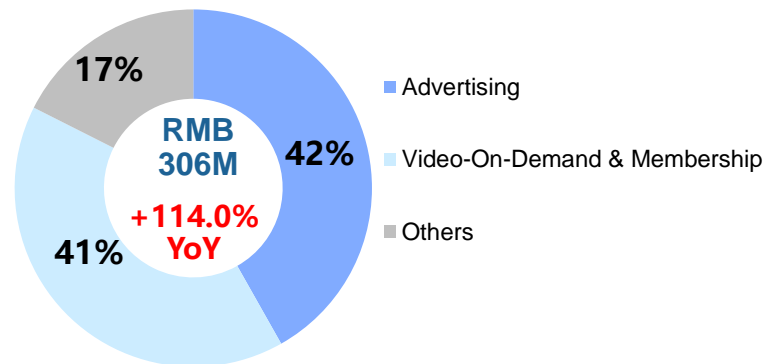
- Turnover of FY 2018 rose rapidly from RMB143 million for last year to approximately **RMB306 million**, representing a **significant increase of 114.0%**, of which turnover from video-on-demand and membership surged by 127.3% and turnover from advertising by 86.8% year-on-year
- The number of paid business users **soared by nearly 200%**, monetization capability continuously enhanced; Net profit after tax amounted to approximately RMB 62 million, profitability greatly enhanced
- Falcon Technology formed a joint venture with New South Media to reinforce “1+1+N” strategic cooperation, integrate resources from more content providers, strengthen Internet ecological cooperation and provide users with quality content and services
- As to membership operations, the TCL Value Membership System was put in place alongside improvement in refined operations of content, leading to enhanced user loyalty and rising average daily time spent on TV

No. of Users and Time Spent on TV

	FY 2018	FY 2017	Change
Total No. of Activated User(s)	31.91 million	23.54 million	+35.6%
Average Daily No. of Active User(s)	15.28 million	10.81 million	+41.4%
Average Daily Time Spent on TV	5.5 hrs	4.9 hrs	+12.2%

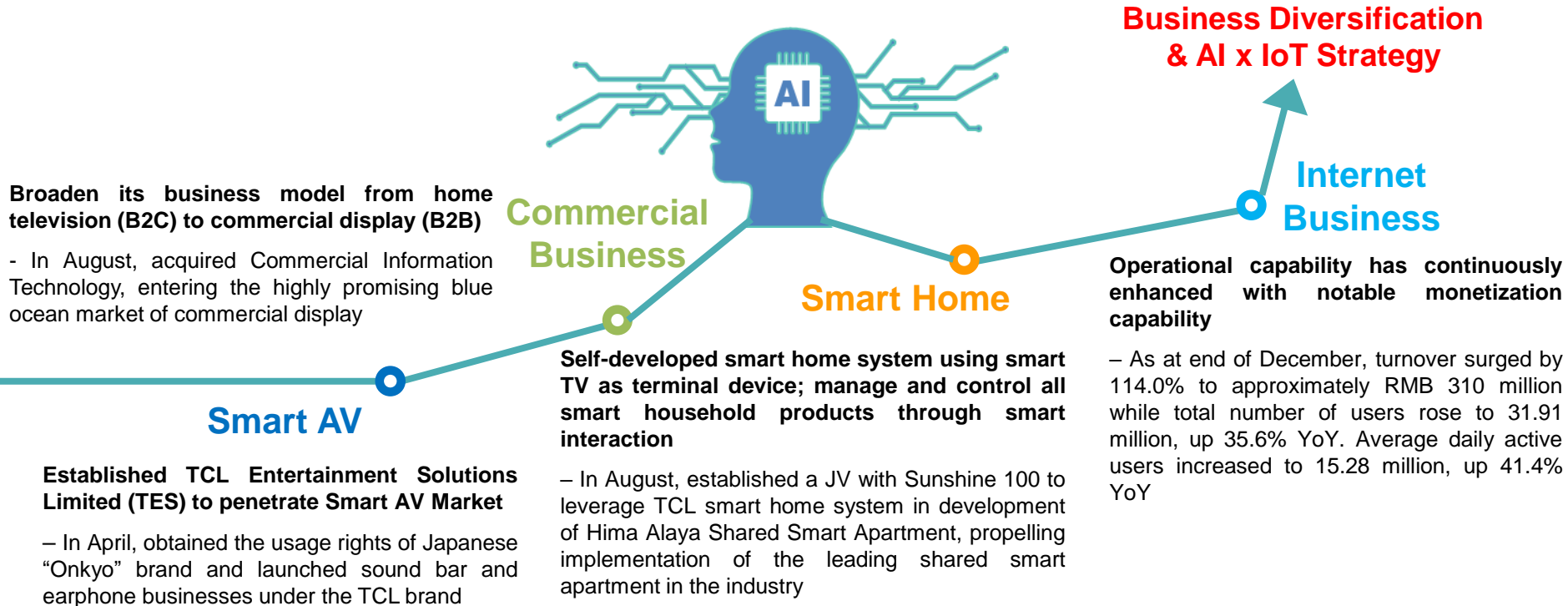


Revenue for FY 2018



Diversification Strategy Implemented in an Orderly Manner

Consolidate and upgrade its existing TV business while proactively diversifying business through acquisition of Commercial Information Technology and expansion of Smart AV and Smart Home businesses to open up new business growth opportunities



Smart AV : Proactive Development of Smart AV Business

TCL

- Focus on launching quality AV products to the market, actively developing sound bar and earphone businesses
- Leverage TCL's leading position in the TV market and advantage in sales channels in pursuit of further development in North American, European, Chinese and Indian smart AV markets
- Establish differentiated innovation capabilities

Product launch in 2019



Products showcased at CES receiving international acclaims



<https://www.thegate.ca/blog/037681/first-impressions-ces-2019-press-conferences/>



TCL Audio lineup

For TCL's press conference, I had a fantastic spot at the front, and they had their new earbuds for all the attendees. Those earbuds are from TCL's new audio lineup, which includes four types of earbuds and headphones, as well as upcoming soundbars.

These \$15 earphones from TCL have no right to sound as good as they do

2019 is getting off to a melodic start
By VIM Sene | @vimsene | Jan 14, 2019, 8:22am EST

f t y



"they sound absolutely terrific"

"we both struggled to comprehend how TCL managed to squeeze so much sonic performance into such a tight budget"

"Seriously, these earbuds sound at least 10 times as good as their price and basic nature would lead you to believe"

"TCL serves up an expertly judged amount of bass"

"The microphone on the SOCL300s is also great"

"the TCL SOCL300s also have effortless fit"

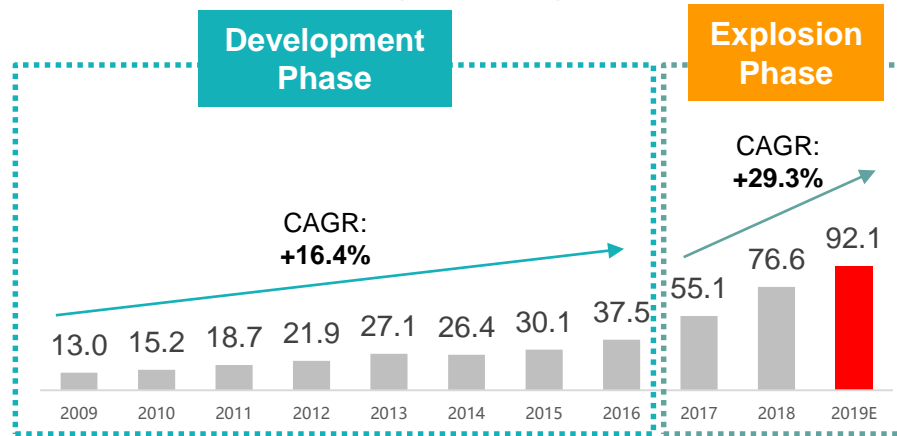
"clearly taken the time to do headphones right, and the stuff it launched (and gave away) at CES is worthy of respect"

Commercial Business: Rapidly-growing Industry with Huge Market Potential



Extend its business model from home television (B2C) to commercial display (B2B) and enter the highly promising blue ocean market of commercial display

China's Commercial Display Market with Huge Potential (RMB billion)

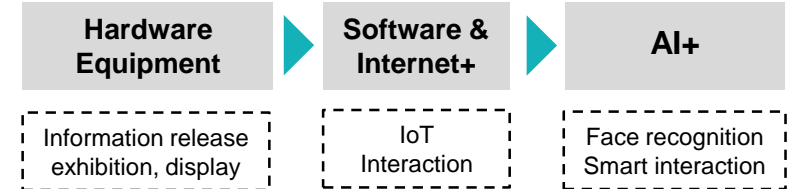


Note: Eight major categories include electronic whiteboard, laser projection, flat panel splicing, DLP splicing, LED small pitch, commercial TV, advertising machine and single-screen display

Source : AVC

Commercial Business

- Entry into B2B market:** Utilize and integrate CI Tech's various development achievements in the fields of IoT, Cloud Application, and AI, rapidly entering B2B market
- Synergies:** Integrate and complement business, share industry and business advantages, and achieve synergy
- Valuation increase:** Revenue from software and services to help improve overall valuation of the company



Smart Home: Creating an Interconnected, Open & Compatible Smart Living Ecosystem

Take the initiative in the industry to facilitate implementation of smart home
Provide users with all-scenario smart and healthy living solutions

- ▶ Provide users with all-scenario smart and healthy living solutions surrounding different life and home scenarios
- ▶ Self-developed smart home system using smart TV as terminal device; manage and control all smart home appliances and household products through smart interaction
- ▶ Smart Home System can manage and connect to TCL's full range of products as well as other brands' smart home appliances, building an open platform
- ▶ Cooperation with Sunshine 100 and a number of real estate projects to jointly build a smart home and community life ecosystem based on "smart display + smart system"

Smart Home System

Smart security system

Energy management system

Audio and visual entertainment system

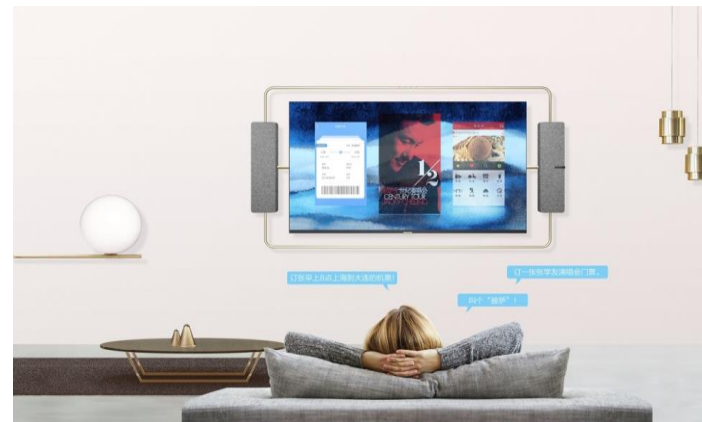


Wireless network system Health information system

Smart lighting system

Smart door and window system

Smart interactive system



Internationally-acclaimed Product Competitiveness, Innovative Technology and Comprehensive Strength

TCL

Awarded Major Honors in
IDG's "2018-2019 Global Top Brands Award" at CES 2019

The prestigious EISA Award –
"Best Buy LCD TV 2018-2019" at IFA in Europe



The Group won Europe's prestigious EISA Award granted by the European Imaging and Sound Association, in recognition of the outstanding picture and sound quality of TCL's TV products, demonstrating remarkable results for TCL's global strategy of product and brand enhancement.

**2018-2019 8K TV Gold Award of the Year
(TCL X10 QLED)**

2018-2019 CE Brands Top 10

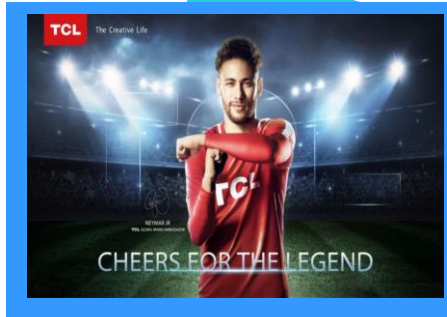
2018-2019 Global CE Brands Top 50

2018-2019 Global TV Brands Top 10

Sports Marketing Promotes Global Brand Building

TCL

Football



Neymar Appointed as TCL's Global Brand Ambassador



Partnership with CONMEBOL Copa América Brasil 2019



Sponsorship for Brazil National Football Team

Basketball



Officially Became the Global Partner of the 2019 FIBA Basketball World Cup



Appointed NBA Milwaukee Bucks Player—Giannis Antetokounmpo (The Alphabet) as the Brand Ambassador for TCL in North America

Forbes Digital 100 Ranking



Global ranking **No. 79**
The only Chinese home appliance brand awarded

79	TCL	Mainland China
80	Atos	France
81	Murata Manufacturing	Japan
82	Naspers	South Africa
83	NXP Semiconductors	Netherlands
84	SAP	Germany
85	STMicroelectronics	Switzerland
86	Advanced Micro Devices	United States
87	Cognizant Technology Solutions	United States
88	DISH Network	United States
89	Inventec	Taiwan, China
90	MediaTek	Taiwan, China
91	NetApp	United States
92	NetEase	Mainland China
93	Qualcomm	United States
94	Samsung Electronics	South Korea

Forbes Digital 100 Ranking (Section)

The Forbes' Digital 100 lists the world's Top 100 public companies from 17 countries and regions, covering IT, hardware, media, digital retail and telecommunications sectors that shape the digital economy.

The 2018 Top 50 Chinese Global Brand by Facebook + KPMG



Listed Company Awards of Excellence 2018 by HKEJ



The 2018 High-Return Stock List for Shenzhen-HK Stock Connect Southbound Listed Companies by Securities Times





Outlook

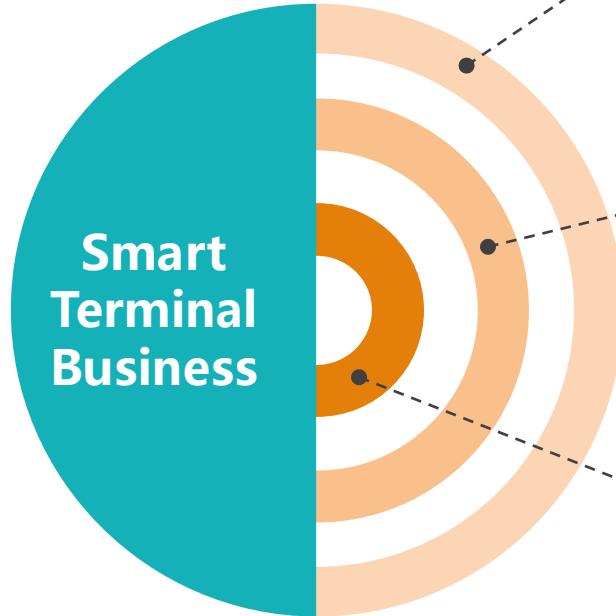
Strategies for Globalization, Diversification, R&D and AI x IoT

Mission: Provide Users with Smart and Healthy Living Related Products and Services

Vision: Become a Global Leading Smart Technology Company

AI x IoT Strategy

Establish interconnected, smart and healthy ecosystem based on smart terminal product business, facilitating interconnection of all devices and integration of various scenarios



Globalization

- Focus on major TOP10+N overseas markets and explore new markets
- Extend smart TV operation to overseas markets
- Offer various range of products

Diversification

- Proactively develop full range of smart terminal product business
- Expanding commercial business, smart AV business (TES) and smart home business to explore new business growth opportunities

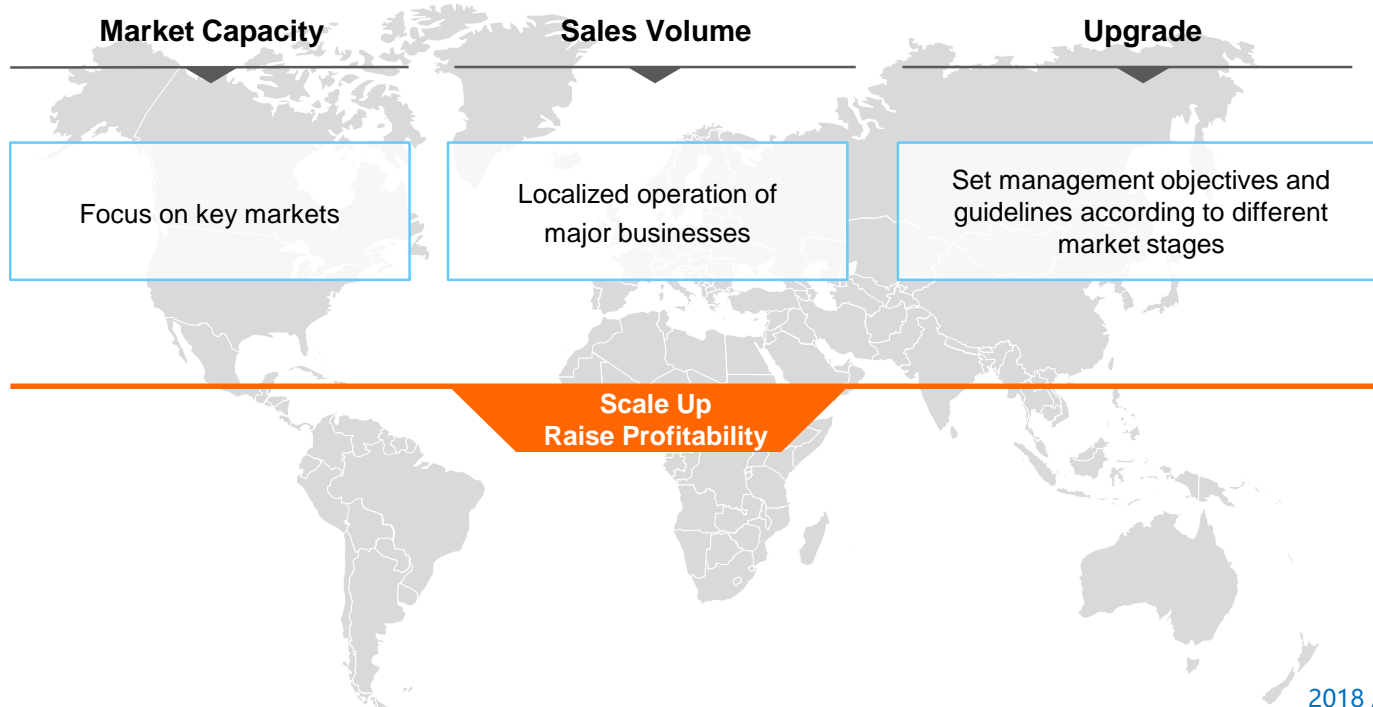
R&D

Strengthen R&D in cutting edge display technologies such as quantum dot, Mini LED and 8K, fully upgrade all-scenarios R&D and AI x IoT, and innovation capability

Reinforcing Globalization Strategies

Overseas markets have become a very important growth driver and sustain strong growth momentum

The Group will consolidate its market position in the North American market, improve performance in the European market and at the same time continuously develop South American market, actively explore major countries and regional markets with large-scale markets such as India, Japan and Russia.



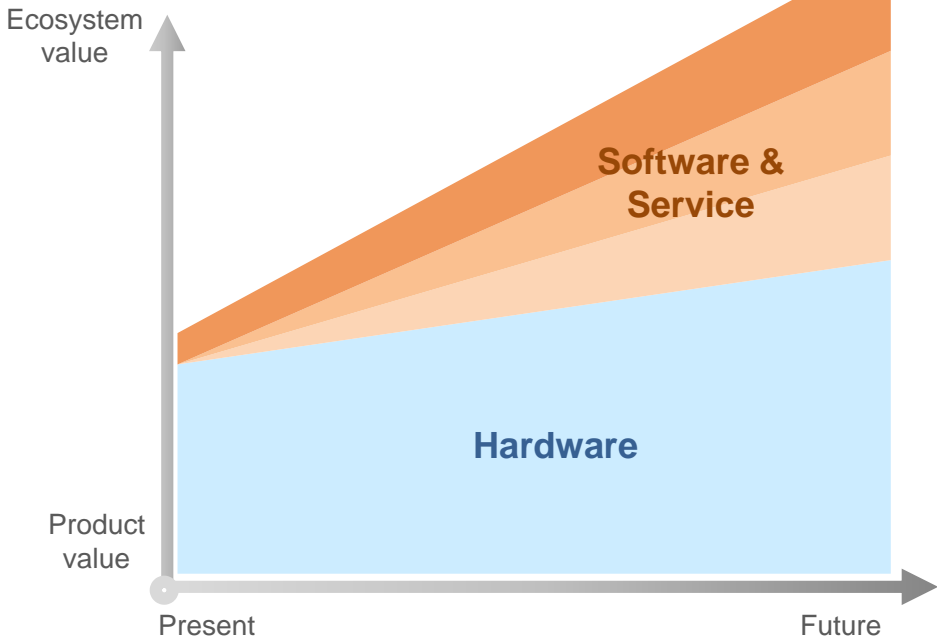


Continuously Accelerating Transformation through Diversification Strategy



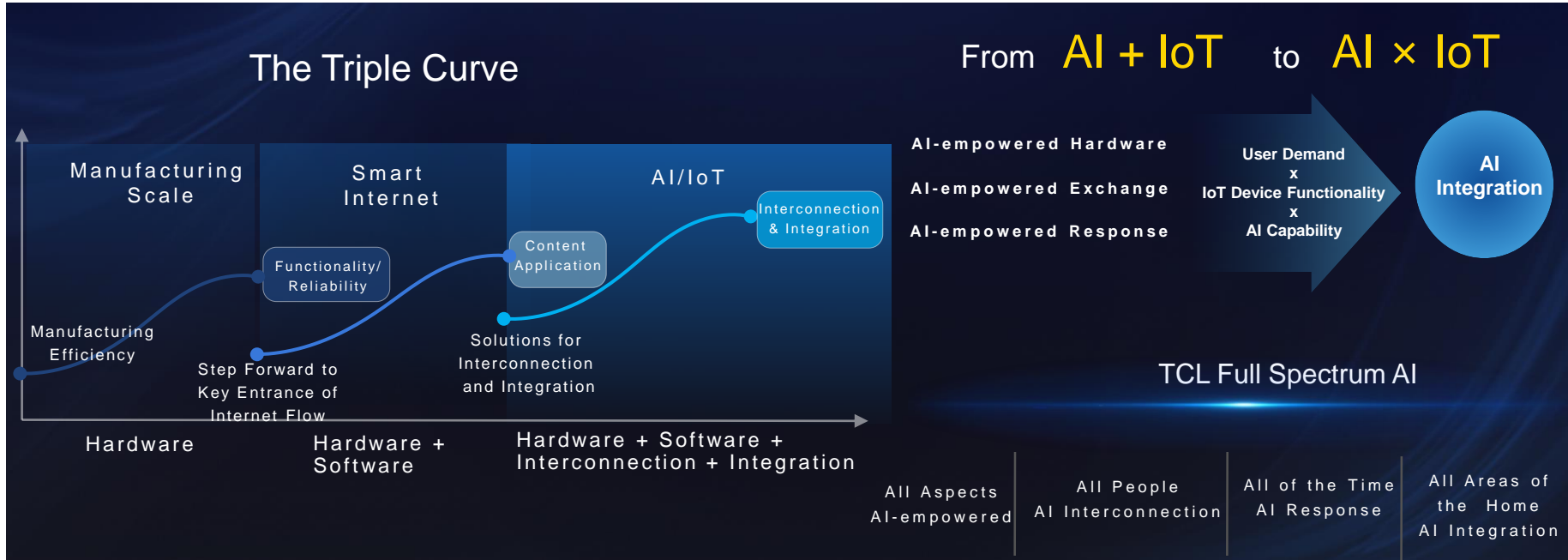
Hardware + software + service, optimize revenue structure, create value

Smart terminal products + Software
+ Service revenue structure



Components of Profit Growth

Internet Business Platform	Enrich user experience and increase the proportion of users of paid business
Smart Home	A platform for full range of TCL smart products and services based on artificial intelligence (AI) and Cloud Interconnection
Commercial Information Technology	Integrate leading commercial display technologies of software and systems with B2B, internet of things (IoT), AI, Cloud Applications and Big Data , etc. to provide one-stop customized service covering software, content and intelligent products
Smart Terminal Products	Consolidate and enhance TV business; Develop Smart AV market



Breaking boundaries, creating value through integration

- Hardware + software + interconnection of all devices and integration of various scenarios represent AI x IoT products for a new era
- The combination of different users demands, functionality of IoT devices and AI capabilities will create exponential growth opportunities

2019 Spring Product Launch

TCL

Launching QLED 8K TV and smart terminal products as well as AI x IoT strategy



Industry – Global TV Market Forecast



Forecasts 2.7%¹ YoY growth in Global LCD TV sales volume in 2019

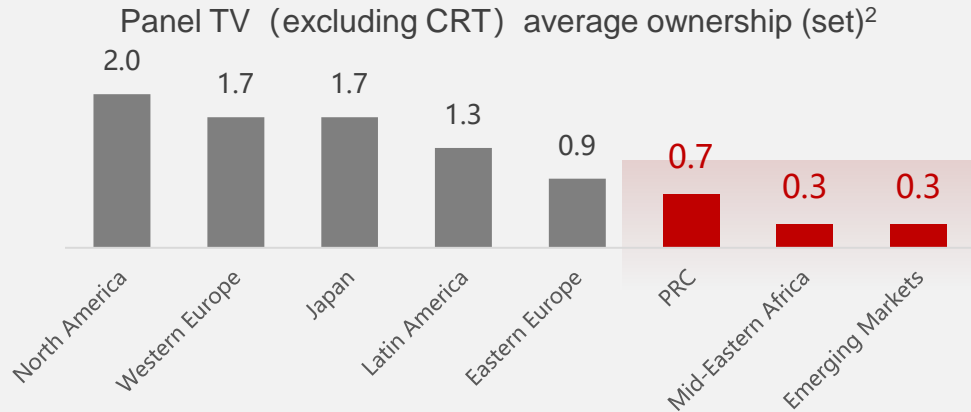
Forecasts 8%² YoY growth in TV dimension of global shipment in 2019



2017A	2018A	2019E
42.5"	43.6"	45.0"

Strong Demand in Certain Regions

Only 80% of global households own TVs in 2018



TCL overseas sales volume of LCD TVs soared by 29.5% in 2018, significantly outpacing the global average

- ✓ North America : up 41.8% YoY
- ✓ Emerging Markets : up 30.7% YoY
- ✓ Europe : up 43.1% YoY

With continuous enhancement in product competitiveness and brand power, we expect to sustain strong growth and increase the market share of overseas markets

1. Source: IHS Technology (2018Q3 data)

2. Source: TCL Industrial Research Institute

Industry – The PRC TV Market Forecast

TCL

In 2019, multiple government policies will favor the industry

Ultra HD + Large Size

On 1 March 2019, the Ministry of Industry and Information Technology, National Radio and Television Administration, and China Media Group jointly launched “The Ultra HD Video Industry Development Action Plan (2019-2022)”, which states the technical roadmap of “Putting 4K first while developing 8K” and goals. According to the Plan, by 2022, 4K TV is expected to be widely adopted, while 8K TV will contribute over 5% to total TV sales volume. The total scale of ultra-high-definition industry is expected to exceed RMB 4 trillion, with the number of ultra-high-definition video users at 200 million. The TV industry will fully benefit from the replacement demand of Ultra HD TV

According to AVC, there are only 110 million units Ultra HD TV in the PRC and approximately 500 million units Non-ultra HD (FHD/HD/CRT)TV, **presenting ample growth potential for 4K and 8K large-screen TVs.**

Energy Saving and Emission Reduction Policy to Boost Consumption

According to the Ministry of Commerce of Beijing, the Chinese government launched **energy conservation and emissions reduction policy** regulating home appliances in Beijing on 1 February 2019. Spanning three years, the policy covers 15 categories of energy-saving and emissions reduction commodities. **Nationwide expansion of implementation is expected to continue.**

The subsidy for TV with the first level energy efficiency standard is 13% of the sales price, while 8% subsidy for the second level standard. The maximum amount redeemable for the subsidized goods is RMB800.

Rural Consumption Potential

Major TVs in China’s rural market were purchased under “Home Appliances for Rural Households” program (2009-2012). By 2019, these products would be used for 7-10 years, entering the replacement period. According to AVC estimates, TV sales during the implementation of the program stood at 74.9 million units. **Rural replacement demand is set to be unleashed.**

2018 Implementation Status and 2019 Targets

	2018 Actual			2019 Target		
	Overall	PRC	Overseas	Overall	PRC	Overseas
LCD TV Sales Volume (Sets)	28.61M ↑23.1%	10.40M ↑13.4%	18.21M ↑29.5%	32.00M ↑12%	10.50M ↑1%	21.50M ↑18%
Turnover (HK\$)	45.58B ↑11.7%	18.92B ↓4.6%	26.66B ↑27.0%	51.0B ↑12%		

The PRC Market (excluding ODM business)	2018 FY Actual	2019 FY Target
Proportion of Smart TV Sales Volume (%)	82.0%	86%
Proportion of 4K TVs Sales Volume (%)	54.1%	60%
Proportion of Online Sales Volume (%)	37.2%	38%

Internet Business	2018 FY Actual	2019 FY Target
Internet service revenue (RMB)	306M	430M
No. of TCL Global Activated Smart TV Users (Accumulated No. at Period End) (Year-end/Quarter-end) ¹	31.91M	40.00M
Average Daily No. of Active Users (Year-end/Month-end) ²	15.28M ³	19.20M
Average Daily Time Spent on TV (Hours)	5.5	5.7

1. No. of TCL Activated Smart TV Users (Accumulated No. at Period End) = Accumulated No. of Activated TV Terminals
2. Average Daily No. of Active Users = No. of Non-repeated Individual Users Who Visit Within 7 Days
3. 2018 December Data

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