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Health and Happiness (H&H) International Holdings Limited

健合 (H&H) 國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1112)

UNAUDITED OPERATIONAL STATISTICS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Health and Happiness (H&H) International Holdings Limited (the “**Company**”), together with its subsidiaries, (the “**Group**”) is pleased to announce the unaudited operational statistics of the Group for the nine months ended 30 September 2021.

- Total revenue declined 1.5% year-on-year on a like-for-like basis (“**LFL**”)¹ to RMB8,096.4 million, which was mainly due to intensifying competition and lower demand in the Baby Nutrition & Care (“**BNC**”) segment in mainland China. Meanwhile, the Group’s Adult Nutrition & Care (“**ANC**”) segment was also impacted after cross-border e-commerce (“**CBEC**”) platforms adopted stricter inventory policies during the third quarter, as well as from a general decline in traffic on these platforms. On a reported basis, the Group’s revenue increased by 4.2% compared with the same period in 2020
- Overall revenue from mainland China declined 3.0% year-on-year, primarily owing to:
 - a sales drop of 6.9% in the BNC segment mainly due to a decline in probiotic supplements sales. However, infant milk formula (“**IMF**”) sales continued to grow 4.5% in the nine months under review
 - ANC sales in mainland China rose 8.7%, with the growth rate being pressurised in the third quarter. Nevertheless, the Gross Merchandise Value (“**GMV**”) on these platforms rose by more than 30% during the third quarter, indicating strong demand and sales-through for our ANC products
 - Pet Nutrition & Care (“**PNC**”) sales in mainland China reached RMB142.1 million following the roll-out of active sales in mainland China in April. Sales from mainland China accounted for 41.1% of total revenue of PNC segment

¹ LFL basis is used to indicate sales growth for the relevant period of this financial year compared with the same period of the previous financial year, excluding the impact from acquisitions and foreign exchange changes. All sales growth in this announcement are calculated based on LFL basis unless otherwise specified.

- Sales in Australia and New Zealand (“ANZ”) saw a turnaround, growing 3.9% year-on-year as the local team continued to develop its domestic business and capture local demand for wellness and immunity-support products
- Overall revenue attributed to other territories, excluding PNC sales, grew 7.9% year-on-year, supported by robust sales in the United Kingdom, France, Hong Kong SAR, Malaysia and India
- Strong business development in PNC segment: revenue of Solid Gold achieved growth of 23.1% in the first nine months, contributed by both active sales in mainland China and sales growth of 16.4% in the United States. We also completed the acquisition of Zesty Paws, LLC on October 4th, the leading online premium pet supplement brand in US, which will further strengthen our existing PNC product portfolio and accelerate the growth both online and offline. Zesty Paws has achieved unaudited revenue growth of 40.9% for the nine months ended 30 September²

During the nine months ended 30 September 2021, our revenue declined 1.5% on an LFL basis to RMB8,096.4 million, compared to the same period of last year. This was mainly attributable to weaker consumer demand and intensifying competition in the BNC segment in mainland China. Meanwhile, the performance of our ANC segment was impacted by the tighter inventory controls introduced by the major CBEC platforms in the third quarter, as well as declining traffic on these platforms.

However, our sales in the ANZ market returned to growth as our strategy of focusing on developing our domestic business paid off. Our PNC segment, as our newest growth driver, also continued to deliver robust sales momentum.

² For information only. Zesty Paws was an independent entity to the Company prior to its completed takeover on 4 October 2021, and its financial results, assets and liabilities were consolidated into the Group on 4 October 2021.

Revenue by product segment and geography (unaudited)

The unaudited consolidated revenue of the Company by product segment and geography for the nine months and for the three months ended 30 September 2021, and the comparative figures for the same periods ended 30 September 2020, is as follows:

	For the nine months ended 30 September				For the three months ended 30 September			
	2021	2020	Reported Change %	LFL Change %	2021	2020	Reported Change %	LFL Change %
<i>All financial data are unaudited and recorded in RMB million</i>								
Revenue by product segment³								
Baby nutrition and care products	4,817.3	5,091.6	-5.4%	-5.4%	1,517.9	1,564.5	-3.0%	-3.0%
<i>Infant formulas</i>	3,717.0	3,534.7	5.2%	5.2%	1,175.7	1,196.3	-1.7%	-1.7%
<i>Probiotic supplements</i>	696.1	1,051.9	-33.8%	-33.8%	231.7	195.7	18.3%	18.3%
<i>Other pediatric products</i>	404.2	505.0	-20.0%	-20.0%	110.5	172.5	-35.9%	-35.9%
Adult nutrition and care products	2,933.8	2,676.0	9.6%	5.8%	1,027.3	1,035.8	-0.8%	2.8%
Pet nutrition & care products	345.3	-	-	-	126.8	-	-	-
Revenue by geography								
Mainland China	6,422.3	6,408.6	0.2%	-3.0%	2,089.0	2,139.7	-2.4%	-4.3%
Australia and New Zealand (“ANZ”)	947.9	881.4	7.5%	3.9%	350.0	294.0	19.0%	24.3%
Other Territories	726.2	477.6	52.1%	7.9%	233.0	166.6	39.9%	3.1%
Group Total	8,096.4	7,767.6	4.2%	-1.5%	2,672.0	2,600.3	2.8%	-0.7%

Mainland China: Continued IMF sales growth amid pressured probiotics category, with ANC sales growth impacted by CBEC platforms reducing inventory and weaker traffic

Revenue from mainland China fell 3.0% year-on-year on a LFL basis during the nine months ended 30 September 2021, with our BNC segments declining by single digits. Mainland China remained the Group’s largest market, accounting for 81.0% of the Group’s total revenue, excluding the PNC sales, during the nine months under review, compared with 82.5% in the same period of last year.

³ For illustrative purpose, the exchange rates of AUD1= RMB4.9099 and AUD1=RMB4.7365 have been used for the preparation of the unaudited consolidated revenue of the Company for the nine months and for the three months ended 30 September 2021 and comparative figures for the same periods ended 30 September 2020, respectively.

The weak performance of our BNC business continued to be attributed to intensifying competition due to the low birth rate in mainland China. Despite these headwinds, which is continuing to impact the entire industry, our IMF business still grew 4.5% during the nine months under review, with sales of our cow milk IMF series growing 0.4%. Meanwhile, with the continued premiumization trend continuing to push up demand for goat milk – one of the most dynamic parts of mainland China’s overall IMF market – sales of our goat milk IMF recorded growth of 67.2% during the nine months under review.

We also continued to make steady progress in implementing our new channel expansion strategy in mainland China. During the nine months under review, our store network grew to 73,795 sales points year on year as we penetrated deeper in offline channels in lower-tier cities. This enabled us to maintain a stable market share in the cow milk IMF market in mainland China. In the twelve months ended 30 September 2021, we ranked 7th in the overall cow milk IMF market in mainland China with a market share of 6.1%⁴.

Other parts of our BNC business in mainland China saw heavier pressure during the nine months under review. The growth of our probiotic supplements segment, in particular, was impacted by strong base effects, especially in the first half of 2020 (following the outbreak of COVID-19 in the first quarter of 2020, we experienced an unprecedented demand for immunity-support, while Biostime-branded probiotics sales in the second quarter of 2020 rose by more than 50% year-on-year ahead of a scheduled price increase in July 2020). The impact of these high base effects started to diminish in the third quarter of 2021, with probiotics sales shrinking 34.2% year-on-year in the nine months ended 30 September 2021, a narrower decline than in the first six months of 2021.

Meanwhile, revenue from our other paediatric products segment, which mainly comprises of our Dodie diaper products, declined by 38.6% year-on-year during the nine months under review following a decision to shift focus from volume growth to product mix optimization and promotion reduction in this category.

Within our ANC segment, active sales of Swisse increased by 8.7% in the nine months ended 30 September 2021 on a LFL basis, with the normal trade business recording high double-digit growth of 44.0% and accounting for 14.3% of ANC sales in mainland China. However, sales in the third quarter were impacted by the major CBEC platforms who tightened their inventory policies, while seeing declining traffic. Nevertheless, our GMV on these platforms during the third quarter rose by more than 30%, indicating strong demand and sales-through during the period. We expect quarterly ANC sales to return to growth in the fourth quarter of 2021, supported by the Double 11 shopping festival.

⁴ According to Nielsen, an independent research company, we ranked 7th in the overall cow milk IMF market in mainland China with a market share of 6.1% for the twelve months ended 30 September 2021, which was stable compared to a market share of 6.1% for the twelve months ended 30 September 2020.

Overall ANC sales in mainland China accounted for 61.8% of total ANC revenue during the nine months under review. For the twelve months ended 30 September 2021, Swisse continued to maintain its No.1 position in mainland China’s online supplement market with a market share of 5.8%⁵, compared with 5.8% for the twelve months ended 30 September 2020.

Furthermore, our PNC sales in mainland China, led by Solid Gold, achieved RMB142.1 million in the nine months ended 30 September 2021, despite recording no sales in this market until April 2021. This growth was fuelled by a strong debut during the 618 shopping festival earlier in the year and tailwinds from high rates of pet adoption and growing spending on premium pet nutrition in mainland China.

ANZ: sales turnaround following re-focus on the domestic consumer market

Sales in the ANZ market returned to growth on a LFL basis, growing 3.9% year on year in the nine months ended 30 September 2021. This was attributed to our efforts to develop our domestic business and capture local market demand for wellness and immunity-support products. We continued to rapidly expand our presence in offline retail stores, including groceries and pharmacies, making up 12.2%⁶ of the Australian VHMS market in the twelve months ended 30 September 2021.

Our positive growth in the ANZ market also extended into the BNC market, which grew 40.0% during the nine months under review, supported by Biostime’s recent launch of IMF and infant supplements containing advanced nutrient Human Milk Oligosaccharides (“**HMO**”) – the first-ever such products in the Australian market, as we continued to target local demand for baby nutrition and wellness.

Other territories: strong growth in several markets

Revenue attributed to other territories, excluding PNC sales, grew by 7.9% year-on-year in the nine months ended 30 September 2021, supported by robust sales in the United Kingdom, France, Hong Kong SAR, Malaysia and India in particular. Furthermore, we continued to retain our no.1 position in the organic IMF category within the French pharmacy channel.

In the United States, the home market of Solid Gold, PNC sales grew 16.4%, with the brand performing well both online and offline on the back of expanding consumer spending on premium pet nutrition.

⁵ According to research statistics by Earlydata, an independent data provider, Swisse ranked first in the mainland China online supplement market with a market share of 5.8% for the twelve months ended 30 September 2021, compared with 5.8% for the twelve months ended 30 September 2020.

⁶ We have switched our provider from IRI to IQVIA, which provided more thorough coverage and a more accurate algorithm. According to research statistics by IQVIA, the share of Swisse Wellness Group Pty Ltd in the Australian VHMS market was 12.2% for the twelve months ended 30 September 2021. The market share was 13.5%, provided by previous research company IRI, for the same period in 2020.

Investing further in the rapidly growing PNC market

On 4 October 2021, we completed the acquisition of Zesty Paws, LLC, the leading online premium pet supplement brand and highly disruptive category pioneer in the United States. This modern, digital, and trusted brand provides a unique platform opportunity in the rapidly growing pet supplement category and will further strengthen our existing PNC product portfolio and accelerate the growth in this promising business segment both online and offline.

Healthy liquidity position

As of 30 September 2021, our cash balance stood at RMB2.45 billion, and we continue to maintain a healthy level of cash conversion.

Full-year outlook: to continue reported revenue growth with ongoing margin pressure

We still expect to report the overall revenue growth in the full 2021 Financial Year but with continued margin pressure. It may be challenging to achieve positive growth on a full year basis within the IMF business due to intensifying competition in IMF market in mainland China. Meanwhile, outside of the Double 11 shopping festival, major CBEC platforms may still face ongoing pressure from inventories and from falling traffic that could potentially impact our ANC sales in mainland China. The margin of our BNC segment in mainland China will continue to be impacted by unfavourable product mix changes (primarily due to the lower contribution of probiotic supplement sales) and raw material cost increases, while the margin of our ANC segment will continue to improve compared with 2020. Despite the challenges we are currently facing, we are confident that our unique brand positioning and diversification strategy across different territories and categories will ensure sustainable growth in the long run.

In mainland China, our largest market and main source of profit, we will continue to expand the penetration of our diversified BNC and ANC products to achieve overall revenue growth in 2021 while delivering sustained revenue growth in the ANC and PNC segments in particular. We expect the sales decline in our probiotics segment to narrow further in the fourth quarter of 2021 and continue to believe that the long-term growth of our probiotics business will be sustained on the back of rising health awareness in mainland China and by Biostime's No. 1 positioning in the global pediatric probiotic supplements market and probiotic supplements market.

In ANZ, we will continue to reclaim Swisse’s strategic leadership in the domestic market, with the daigou channel unlikely to return in near future. We also expect to see more contribution from our other territories as we continue to strategically globalize our Biostime and Swisse brands and realize our vision of becoming a global leader in premium nutrition and wellness.

By Order of the Board
Health and Happiness (H&H) International Holdings Limited
Luo Fei
Chairman

Hong Kong, 16 November 2021

As at the date of this announcement, the executive directors of the Company are Mr. Luo Fei, Mrs. Laetitia GARNIER and Mr. Wang Yidong; the non-executive directors of the Company are Dr. Zhang Wenhui and Mr. Luo Yun; and the independent non-executive directors of the Company are Mr. Tan Wee Seng, Mrs. Lok Lau Yin Ching and Mr. Wang Can.