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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 THREE MONTHS ENDED 31 MARCH 2022

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 three months ended 31 March 2022.

- During the three months ended 31 March 2022, total revenue increased by 11.5% year-on-year on a reported basis (7.0% on a like-for-like (“**LFL**”) basis) to RMB2,683.2 million. This growth was mainly attributed to robust and healthy growth in our Adult Nutrition & Care (“**ANC**”) business in mainland China and Australia and New Zealand (“**ANZ**”), as well as continued robust growth momentum within our Pet Nutrition & Care (“**PNC**”) business, despite continued challenges in the BNC segment. This momentum placed the Group on the path to the continued overall growth trajectory in the 2022 full year.
- Revenue from mainland China increased by 2.6% year-on-year on a LFL basis, with ANC’s double-digit growth of 33.3% led by Swisse, primarily owing to the robust consumer demand towards immune support products and distributors stocking up in advance of the potential supply chain challenge. Furthermore, PNC recorded RMB83.1 million in sales as the Group tapped into promising tailwinds arising from high rates of pet adoption and growing spending on premium pet nutrition. This offset a sales decline of 9.6% in the Baby Nutrition & Care (“**BNC**”) segment, notably for infant milk formula (“**IMF**”) and probiotic supplements.
- Our sales turnaround in the ANZ market continued, growing 40.2% on a LFL basis, mainly attributed to the strong consumer demand towards immune support products, as well as stock up by distributors in anticipation of the potential supply chain challenge.

- In United States (“US”), the total revenue grew by 21.7% on a LFL basis, in which the PNC business grew by 23.6% on a LFL basis (30.6% on a pro forma basis consolidating Zesty Paw’s revenue for Q1 2021), with both brands performing well online and offline in line with the durable pet nutrition premiumization and pet humanizing trends. Furthermore, the business and financial integration for Zesty Paws were all completed as planned.
- The Group secured an improved liquidity position through entering into a facilities agreement with certain credit parties in the aggregate amount of US\$1,200,000,000, further optimizing its capital structure.
- Looking forward, the Group still maintains its full-year outlook for a continued overall growth trajectory, led by its ANC and PNC segments, while expecting gradual recovery in the BNC segment.

Revenue by product segment and geography (unaudited)

The unaudited consolidated revenue of the Company by product segments and geography for the three months ended 31 March 2022 is as follows:

	For the three months ended 31 March			
	<i>All financial data is unaudited and recorded in RMB million</i>			
	2022	2021	Reported Change %	LFL Change %
Revenue by product segment²				
Baby nutrition & care products	1,530.7	1,686.3	-9.2%	-9.2%
<i>Infant formulas</i>	1,205.0	1,290.2	-6.6%	-6.6%
<i>Probiotics supplements</i>	220.6	247.2	-10.7%	-10.7%
<i>Other pediatric products</i>	105.1	148.9	-29.4%	-29.4%
Adult nutrition & care products	803.1	651.3	23.3%	34.2%
Pet nutrition & care products	349.4	68.3	411.2%	147.8%
Revenue by geography				
Mainland China	1,927.4	1,916.0	0.6%	2.6%
ANZ	329.5	254.9	29.3%	40.2%
US	273.0	75.4	262.0%	21.7%
Other Territories	153.3	159.6	-3.9%	-0.9%
Group Total	2,683.2	2,405.9	11.5%	7.0%

² For illustrative purposes, the exchange rates of AUD1 = RMB4.6051 and USD1 = RMB6.3504, AUD1 = RMB5.0105 and USD1 = RMB6.4844 have been used for the preparation of the unaudited consolidated revenue of the Company for the three months ended 31 March 2022 and comparative figures for the same periods ended 31 March 2021, respectively.

Mainland China: robust growth in ANC and PNC segments, despite BNC segment continuing to face headwinds

Revenue from mainland China increased by 2.6% year-on-year on a LFL basis during the three months under review, supported by strong double-digit growth in our ANC and PNC segments, while our BNC segment continued to face challenges. Mainland China remained the Group's largest market, accounting for 71.8% of our total revenue during the three months under review, compared with 79.6% in the same period of last year.

Our BNC segment, continued to face structural pressures, particularly intensifying competition stemming from the low birth rate in mainland China, and was also impacted by phasing effects related to the early Chinese New Year holiday in 2022. IMF sales declined by 7.1% year-on-year during the three months under review, with sales of cow milk and goat milk IMF series falling by 7.7% and 1.2% respectively year-on-year. To counter these challenges over the longer term, we continued to steadily implement our channel expansion strategy and expand our reach into lower-tier cities. These ongoing strategies enabled us to maintain a stable market share. In the twelve months ended 31 March 2022, our market shares in the overall IMF market and goat milk IMF market were 5.8%³ and 4.2%⁴, respectively.

Other parts of our BNC segment in mainland China also faced pressure. Our probiotic supplements segment declined by 11.1% year-on-year, a further narrowing of the sales decline reported in 2021. We have seen early signs of recovery thanks to the implementation of the new channel strategy and consumer education activities. Meanwhile, revenue from our other paediatric products category, which mainly comprises our Dodie diaper products, declined by 45.9% year-on-year following our earlier decision to shift focus from volume growth to product mix optimization and promotion reduction in this category.

In the ANC segment, active sales of Swisse in mainland China accounted for 53.0% of our total ANC sales, and increased by 33.3% on a LFL basis, primarily owing to the robust consumer demand towards immune support products and distributors stocking up in advance of the potential supply chain challenge. Furthermore, Swisse's normal trade business grew by strong double-digits, supported by the launch of more blue hat SKUs compliant for normal trade and more localized products, as well as through our continued expansion in innovative categories. In the twelve months ended 31 March 2022, Swisse continued to maintain its No.1 position in mainland China's online vitamin, herbal and mineral supplements ("VHMS") market with a market share of 6.8%⁵.

³ According to Nielsen, an independent research company, the share of Biostime in the overall IMF market in mainland China was 5.8% for the twelve months ended 31 March 2022, which was stable compared with a market share of 5.8% for the twelve months ended 31 March 2021.

⁴ According to Nielsen, an independent research company, the share of Biostime in the overall goat milk IMF market in mainland was 4.2% for the twelve months ended 31 March 2022, which improved from the market share of 3.8% for the twelve months ended 31 March 2021.

⁵ According to research statistics by Earlydata, an independent data provider, Swisse ranked first in the China online supplement market with a market share of 6.8% for the twelve months ended 31 March 2022, compared with 6.0% for the twelve months ended 31 March 2021, which is different from the data of 5.7% published by the Group in its Unaudited Operational Statistics for the Three Months Ended 31 March 2021 due to statistics adjustments including data from VIP.com.

Meanwhile, PNC sales in mainland China, led by Solid Gold, recorded RMB83.1 million in sales during the three months under review as we continued to tap into promising tailwinds arising from high rates of pet adoption and growing spending on premium pet nutrition in mainland China.⁶

ANZ: sales turnaround continued in other export channels and domestic market

Sales in the ANZ market grew by a robust 40.2% on a LFL basis during the three months under review as a result of strong consumer demand towards immune support products, as well as stock up by distributors in anticipation of the potential supply chain challenge. As part of these efforts, we continued to rapidly expand our presence in offline retail stores, including groceries and pharmacies, and maintain Swisse's leadership in key categories and channels. In the twelve months ended 31 March 2022, Swisse's share of the overall Australian VHMS market grew to 12.3%⁷, and its domestic market share, excluding daigou, improved to 12.0%⁸ for the same period under review.

BNC revenue in the ANZ market decreased by 4.2% in the three months under review on a LFL basis. However, we continued to target local demand for baby nutrition and wellness and leverage our unique product range, including IMF and infant supplements with advanced nutrient Human Milk Oligosaccharides ("HMO").

US: double-digit growth continued with sales expansion both online and offline

In US, the total revenue grew by 21.7% on a LFL basis, in which the PNC business grew by 23.6% on a LFL basis (30.6% on a pro forma basis consolidating Zesty Paw's revenue for Q1 2021), with both brands performing well online and offline in line with the durable pet nutrition premiumization and pet humanizing trends. Zesty Paws continued to rank no.1 on Amazon and Chewy, with a market share of 16.2% and 18.9%⁹ on these platforms respectively.

⁶ The Group recorded no PNC sales in mainland China during the three months ended 31 March 2021 as the business was being transitioned from a sole distributor model to an active sales model. The active sales of Solid Gold kicked off from April 1st.

⁷ According to research statistics by IQVIA, the share of Swisse Wellness Group Pty Ltd in the overall Australian VHMS market was 12.3% for the twelve months ended 31 March 2022 as compared with 12.1% for the twelve months ended 31 March 2021.

⁸ According to research statistics by IQVIA the share of Swisse Wellness Group Pty Ltd in the domestic Australian VHMS market was 12.0% for the twelve months ended 31 March 2022 as compared with 11.3% for the twelve months ended 31 March 2021.

⁹ According to research statistics by Stackline, the share of Zesty Paws on Amazon and Chewy reached 16.2% and 18.9%, respectively, for the three months ended 31 March 2022 as compared with 14.2% and 16.9% for the three months ended 31 March 2021.

In addition to its online business, we leveraged its leading brand positioning to further expand offline sales, reaching 7,400 stores and 4,200 stores for Zesty Paws and Solid Gold, respectively, which include major chain retailers such as Walmart, Target, Petco and PetSmart. This expansion will create further channel synergies for both of our PNC brands while also building brand awareness that will propel future growth.

That said, we may face margin pressure from Solid Gold in the coming quarters, due to the increasing cost of raw ingredients with bulk commodity prices having increased in the past several months.

Other territories: solid growth in Southeast Asia while facing potential pressure from Europe

Meanwhile, revenue attributed to other territories declined by 0.9% year-on-year in the three months under review. For the past several years, we have entered eight Asian markets in total, including Hong Kong SAR, Singapore, Malaysia, Thailand, Indonesia, India, Taiwan and Vietnam. Sales of Swisse in its new expansion markets in India and Southeast Asia (including in Vietnam, in which we launched Swisse during the three months under review) continued to grow strongly.

During this time, we have faced increasing pressure in some European markets, with the key exception of France – where we continue to witness robust revenue growth and retain our no.1 position in the organic IMF category within the French pharmacy channel.

Given this landscape, we recently made the decision to exit Swisse from the United Kingdom and Netherlands markets. We will instead focus our efforts on expanding our Aurelia and CBII brands, particularly in the United Kingdom.

Healthy liquidity position

As of 31 March 2022, our cash balance stood at RMB2.1 billion and we continued to maintain a healthy level of cash conversion.

Recently¹⁰, the Company entered into a Facilities Agreement with certain Credit Parties in the aggregate principal amount of US\$1,200,000,000, including a term loan facility of US\$1,125,000,000 and a revolving credit facility of US\$75,000,000. This will enable the Group to optimize its capital structure and secure an improved liquidity position.

2022 outlook: aiming for a continued overall growth trajectory

We aim to further expand our top-line growth over the full year with our global ANC and PNC businesses further accelerating their sales momentum. In mainland China, we will continue to target normal trade e-commerce and offline channels to grow our ANC business, introducing more blue hat SKUs and localized products. Mainland China is also set to become an increasingly important sales contributor to our global PNC business, with Solid Gold having recently received seven new licenses to sell pet food products in the offline channel, and having already entered approximately 5,000 pet stores and pet hospitals.

¹⁰ Please refer to the Group's HKEX announcement published on 28 April 2022.

That said, the industry environment confronting our BNC business is likely to remain challenging. We will continue to stabilize our market position and the profitability of our IMF business through our distribution expansion, while improving sales output per single outlet. We will also aim to return our probiotics business to growth, through targeted distribution and customer education while exploring new strategies aimed at customer acquisition and improving penetration, leveraging Biostime's world's No. 1 brand positioning in the children's probiotics and prebiotics supplements market.

Facing the recent resurgence of COVID-19 in many cities in mainland China, we have proactively responded to the market by collaborating with major e-commerce platforms shifting some of warehouses to ensure smooth logistics, as well as by leveraging our personnel to resolve 'last kilometer' problem and endeavouring to ensure prompt delivery to our consumers for products such as IMF, probiotic supplements, immunity-related products, and pet food. However, we might expect supply chain challenge to have some impact on our overall business in the following quarters.

Outside of mainland China, we remain confident about the long-term prospects of our product and geographic diversification strategy as we continue to realize our vision of becoming a global leader in premium nutrition and wellness. We expect sales in ANZ to continue recovering, supporting our global top-line performance. Within our PNC business, we will continue to leverage Zesty Paws' strong industry momentum and e-commerce expertise to accelerate sales expansion in the US, both online and offline, and aim to introduce Zesty Paws to mainland China at a small scale at first, starting with Cross-border E-commerce channels.

Margin pressure due to rising inflation and potential supply chain challenge across the businesses remain two prevailing concerns for the Group. We will continue to counteract with various methods, including product mix optimization, increasing the price of selected SKUs based on market benchmarking, spending efficiency improvements, and alternative sourcing. This will enable us to continue to delivering profitable growth throughout the year.

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

Hong Kong, 11 May 2022

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.