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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 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 nine months ended 30 September 2022.

- In the nine months ended 30 September 2022, total revenue increased by 13.4% year-on-year on a reported basis (7.8% on a like-for-like (“**LFL**”)¹ basis) to RMB9,184.4 million. This was mostly attributed to the healthy growth of our Adult Nutrition & Care (“**ANC**”) segment in mainland China and Australia and New Zealand (“**ANZ**”) and robust growth momentum in our Pet Nutrition & Care (“**PNC**”) business, with our Baby Nutrition & Care (“**BNC**”) segment stabilizing.
- Revenue from mainland China increased 7.3% year-on-year on a LFL basis amid strong double-digit growth in the ANC and PNC segments. BNC sales turned positive in the three months ended 30 September 2022, driven by an expanded turnaround in probiotics sales, with the sales decline in the infant milk formula (“**IMF**”) business narrowing.
- Strong sales momentum maintained in ANZ in both domestic and corporate daigou channels, expanding by a combined 20.6% on a LFL basis.
- In North America, total revenue expanded by 20.2% year-on-year on a LFL basis, supported by a 20.6% expansion in PNC revenue on a LFL basis.
- The Group is well positioned to cope with greater exchange rate fluctuations and a higher interest rate environment, having already hedged the exposures associated with two debt instruments until maturity through cross-currency swaps and interest rate swaps.

¹ Like-for-like (“**LFL**”) basis is used to indicate change of this period compared with same period of previous year, excluding the impact from acquisitions and foreign exchange changes.

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 2022, and the comparative figures for the same periods ended 30 September 2021 is as follows:

	For the nine months ended 30 September				For the three months ended 30 September			
	2022	2021	Reported Change	LFL Change ²	2022	2021	Reported Change	LFL Change
<i>All financial data are unaudited and recorded in RMB million</i>								
Revenue by product segment								
Baby nutrition and care products	4,748.7	4,817.3	-1.4%	-1.4%	1,564.8	1,517.9	3.1%	3.1%
<i>Infant formulas</i>	3,634.8	3,717.0	-2.2%	-2.2%	1,172.6	1,175.7	-0.3%	-0.3%
<i>Probiotics supplements</i>	793.8	696.1	14.0%	14.0%	299.5	231.7	29.3%	29.3%
<i>Other pediatric products</i>	320.1	404.2	-20.8%	-20.8%	92.7	110.5	-16.1%	-16.1%
Adult nutrition and care products	3,368.2	2,933.8	14.8%	20.8%	1,321.7	1,027.3	28.7%	31.1%
Pet nutrition & care products	1,067.5	345.3	209.1%	26.1% ³	342.4	126.8	170.0%	7.9%
Revenue by geography								
Mainland China	6,786.7	6,422.3	5.7%	7.3%	2,392.0	2,089.0	14.5%	15.3%
ANZ	1,088.1	947.9	14.8%	20.6%	395.6	350.0	13.0%	15.5%
North America	866.0	223.0	288.4%	20.2% ³	295.0	71.5	312.5%	14.7%
Other Territories	443.6	503.2	-11.8%	-10.2%	146.3	161.5	-9.4%	-8.8%
Group Total	9,184.4	8,096.4	13.4%	7.8%	3,228.9	2,672.0	20.8%	13.9%

² For illustrative purpose, the exchange rates of AUD1= RMB4.6677 and USD1 = RMB6.6068, AUD1=RMB4.9099 and USD1 = RMB6.4714 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 2022 and comparative figures for the same periods ended 30 September 2021, respectively.

³ The LFL change of PNC and North America are on pro forma basis as if the revenue of Zesty Paws for the nine months and for the three months ended 30 September 2022 and 2021 were consolidated.

Mainland China: BNC returns to growth amid continued strong momentum in ANC and PNC

Revenue from mainland China increased by 7.3% year-on-year on a LFL basis in the nine months under review, amid strong double-digit growth in our ANC and PNC segments and with our BNC sales stabilizing. Mainland China remained our largest market, accounting for 74.0% of our total revenue during the nine months under review, compared with 79.3% in the same period of last year.

Sales attributed to our BNC segment benefited significantly from our sustained efforts to strengthen brand awareness and rapidly expand our reach in lower-tier cities through our channel expansion strategy, as well as from branding initiatives and focused investments in consumer education. This delivered 5.2% growth in the three months ended 30 September 2022 and facilitated a recovery for the nine months ended 30 September 2022. The sales decline in our IMF business was further narrowed following robust performances in the third quarter. In the nine months under review, IMF sales was down by 2.2%, with sales of cow milk and goat milk IMF series falling by 2.0% and 4.5% respectively year-on-year, and channel inventory levels remaining healthy despite the long-term structural challenges facing all market players in mainland China. The successful implementation of the above strategies also enabled us to maintain a stable market share. In the twelve months ended 30 September 2022, our market share of the overall IMF market and goat milk IMF market were 5.6%⁴ and 4.2%⁵, respectively, with high single-digit growth in our super premium series.

Our market expansion, branding and consumer education strategies continued to drive the ongoing turnaround of our probiotic supplements business, with sales expanding by 14.2% in the nine months under review, enabling us to maintain our leadership in mainland China market. Revenue from our other pediatric products category, which mainly comprises our Dodie diaper products, declined by 20.0% year-on-year in the nine months under review following our earlier decision to shift focus from volume growth to profit improvement in this category. As a result, we have seen profitability improve to a close to breakeven point over the same period.

⁴ According to Nielsen, an independent research company, the share of Biostime in the overall IMF market in mainland China was 5.6% for the twelve months ended 30 September 2022 as compared with a market share of 5.9% for the twelve months ended 30 September 2021.

⁵ According to Nielsen, an independent research company, the share of Biostime in the overall goat milk IMF market in mainland China was 4.2% for the twelve months ended 30 September 2022, which improved from a market share of 4.1% for the twelve months ended 30 September 2021.

Within the ANC segment, active sales of Swisse in mainland China increased by 22.8% on a LFL basis in the nine months under review and accounted for 62.8% of our total ANC sales. This double-digit growth was driven by robust consumer demand for beauty, multi-vitamins and immune support products, early piling up during the third quarter to build inventory ahead of the upcoming Double 11 shopping festival, and successful implementation of our omni-channel and brand enhancement strategies. At the same time, normal trade sales saw robust year-on-year growth of 68.3% on a LFL basis, supported by the launch of more innovative categories, effective marketing and a strong performance during the 618 shopping festival earlier in the year. In the twelve months ended 30 September 2022, Swisse maintained its No. 1 position in mainland China's online vitamin, herbal and mineral supplements ("VHMS") market with a market share of 7.2%⁶.

PNC sales in mainland China, led by Solid Gold, recorded robust growth of 52.3% on a LFL basis in the nine months under review as we continued to leverage increasing pet adoption rates and growing spending on premium pet nutrition⁷. We further improved our exposure to consumers in the online and offline markets, having reached 7,300 pet stores and pet hospitals in the offline market. In the three months ended 30 September 2022, supply chain challenges in North America impacted the availability of some Solid Gold products although we expect supply to stabilize in early 2023.

ANZ: sustained growth momentum in both domestic market and corporate daigou channels

Our momentum in the ANZ market remained strong in the nine months under review with sales expanding by 20.6% on a LFL basis, supported by rising demand for immune-supporting products, a strategic refocus on the domestic market, expanded distribution and the launch of new products in innovative categories. Sales in the domestic market were also supported by new innovative product launches with key retail partners in the pharmacy channel, including the Swisse Nutra+ range, which helped maintain Swisse's leadership in key categories and channels. In the nine months under review, revenue from the domestic market and corporate daigou channels increased by 24.3% and 14.3% respectively and accounted for 66.4% and 33.6% of the total ANZ business respectively. In the twelve months ended 30 September 2022, Swisse's share of the overall Australian VHMS market maintained at 12.2%⁸.

⁶ According to research statistics by Earlydata, an independent data provider, Swisse ranked first in the China online supplement market with a market share of 7.2% for the twelve months ended 30 September 2022, compared with 6.3% for the twelve months ended 30 September 2021, which is different from the data of 5.8% published by the Group in its Unaudited Operational Statistics for the Nine Months Ended 30 September 2021 due to statistics adjustments including data from VIP.com.

⁷ 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. Active sales of Solid Gold kicked off from 1 April 2021.

⁸ According to research statistics by IQVIA, the share of Swisse Wellness Group Pty Ltd in the overall Australian VHMS market was 12.2% for the twelve months ended 30 September 2022 as compared with 12.2% for the twelve months ended 30 September 2021.

North America: double-digit growth delivered alongside domestic PNC brand leadership

Revenue attributed to North America, which is now our third-largest market and a major source of growth, grew by 20.2% on a LFL basis in the nine months under review, within which the PNC business grew by 20.6% on a LFL basis, as we benefited from the increasingly well-established pet nutrition premiumization and pet humanizing trends and the growing pet population. However, overall growth in the third quarter was impacted by the transition of Solid Gold's business on Amazon from a wholesale model to a marketplace model.

Channel expansion remains our biggest priority as we leverage local expertise to expand our Solid Gold and Zesty Paws brands both online and offline, with Zesty Paws maintaining its leading position on Amazon and Chewy on these platforms, and growing rapidly on Costco's online store on to which it launched earlier this year. In the offline market, Zesty Paws and Solid Gold are now present in more than 7,700 stores and 3,800 stores respectively across the United States, including major chains such as Walmart, Target, Petco and PetSmart, which is creating stronger channel synergies and brand awareness that will propel future growth.

Other territories: solid growth in key markets

Revenue contributed by other territories declined by 10.2% on a LFL basis in the nine months under review, which was mainly attributed to strategic refocusing and restructuring, particularly in EU markets, in order to improve profitability. In France, Biostime grew by strong double digits in the nine months under review while maintaining its No.1 position in the organic cow IMF and No.2 position in the organic goat IMF categories within the French pharmacy channel with a market share of 42.3% and 39.0%, respectively.

Our growth momentum in new expansion markets in Asia remained strong. In the third quarter, Swisse extended its No.1 beauty supplement brand status in the Singapore market, while at the same time, we saw strong and steady growth in Vietnam (in which we launched earlier this year). We also expanded our PNC business into Hong Kong SAR with Zesty Paws becoming the first pet supplement brand to operate a flagship store on HKTVmall.

Healthy liquidity position

As of 30 September 2022, our cash balance stood at RMB2.1 billion and we maintained a healthy level of cash conversion, allowing us to continue to deleverage our balance sheet. We are also well-positioned to cope with greater exchange rate fluctuations and a higher interest rate environment. The exchange rate exposures associated with two debt instruments, i.e. the term loan and senior notes have been fully hedged until maturity through cross-currency swaps into the respective functional currencies of the Group's business. A good portion of the interest rate under the term loan had been fixed through interest rate swaps shortly after the loan principal drawdown in June, while the coupon rate of the senior notes is fixed for the entire outstanding period.

We aim to achieve a healthy level in the coming three years while maintaining a consistent dividend payout ratio of 30% of adjusted net profit to reward our shareholders.

Full-year outlook: expanded top-line growth with ongoing margin pressure

We still expect to deliver expanded top-line growth for the full 2022 Financial Year compared to the 2021 Financial Year, with our ANC and PNC segments continuing their growth momentum and our BNC segment further stabilizing.

Rising inflation and supply chain challenges are continuing to squeeze margins, with Solid Gold in particular facing raw ingredient cost pressures with bulk commodity prices increasing substantially in recent months and likely to continue doing so in the short-to-medium term. We are combating these margin pressures through product and channel mix optimization, increasing the price of selected SKUs (on top of a price increase already implemented in our PNC segment earlier this year), as well as through spending efficiency improvements and alternative sourcing.

In the BNC segment in mainland China, we will further stabilize our position in the IMF market by prioritizing our channel expansion strategy and focused investments in branding initiatives and consumer education to counter the long-term challenges facing the entire industry, including declining birth rates, constrained demand and increasing competition ahead of the implementation of new GB standards early next year. We will continue to support the renewed growth of our probiotics business by expanding into new categories, extending our penetration of offline channels and leveraging Biostime's world's No.1 children's probiotics and prebiotics supplements brand positioning in mainland China market.

In the ANC segment in mainland China, we will push forward our normal trade business with branding initiatives that target both the online and offline markets, while introducing more 'blue hat' and localized products to drive increased momentum. Cross-border e-commerce ("CBEC") remains the main sales contributor for ANC in mainland China and we expect this business to see positive growth with stable market share.

We will also progressively expand our PNC brands in mainland China, utilizing Solid Gold's twelve new licenses to sell pet food products online and with a planned launch of Zesty Paws on CBEC platforms by the end of the year.

In ANZ, we expect sales growth in our domestic and corporate daigou channels to remain resilient as we launch more products in innovative categories and maintain Swisse's leadership in this market.

In North America, we will exploit ongoing industry momentum to increase the reach of Zesty Paws and Solid Gold on online channels while increasing distribution penetration in offline channels. We expect Zesty Paws to sustain its leadership on the Amazon and Chewy platforms, its key sales channels.

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

Hong Kong, 15 November 2022

As at the date of this announcement, the executive directors of the Company are Mr. Luo Fei, Mrs. Laetitia Albertini 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.