

## Media Release

5 November, 2020

### H&H Group Announces Increased Sales Growth in Q3, Driven by Demand for Immunity Products

- Total revenue grew 3.1% on a like-for-like basis (“LFL”)<sup>1</sup> basis to RMB7,767.6 million for the nine months ended 30 September 2020
- Revenue attributed to China<sup>2</sup> remained strong, growing 11.0% year-on-year despite slower offline traffic due to COVID-19, accounting for 82.5% of the total Group’s revenue
- Infant milk formula (“IMF”) sales for the nine months under review increased by 2.2%, which was mainly supported by positive growth of 13.2% year-on-year in the third quarter of 2020 following channel expansion and the launch of new domestic series in China
- Overall Adult Nutrition and Care (“ANC”) business in the Australia and New Zealand (“ANZ”) market declined 32.1% on a LFL basis in the nine months ended 30 September 2020, with the decline expected to continue in the rest of the second half. However, continuous growth was maintained in China and other markets, with growth of 23.9% and 1.6% in the nine months under review, respectively
- Ongoing margin pressure due to changes to product, channel and market mix, including operational deleveraging in the ANZ market

Global family nutrition and wellness provider, **Health and Happiness International Holdings Limited** (H&H Group, HKSE: 1112), has today announced its unaudited operational statistics for the nine months ended 30 September 2020.

#### Revenue by product segment and geography (unaudited)

The unaudited consolidated revenue<sup>3</sup> of the Company by product segment and geography for the nine months and for the three months ended 30 September 2020, and the comparative figures for the same periods ended 30 September 2019, is as follows:

	For the nine months ended 30 September				For the three months ended 30 September			
	<i>All financial data are unaudited and recorded in RMB million</i>							
	2020	2019	Reported Change	LFL Change	2020	2019	Reported Change	LFL Change
		%	%			%	%	
<b>Revenue by product</b>								
Baby nutrition and care	<b>5,091.6</b>	4,764.9	6.9%	<b>6.9%</b>	<b>1,564.5</b>	1,503.3	4.1%	<b>4.1%</b>
<i>Infant formulas</i>	<b>3,534.7</b>	3,458.1	2.2%	<b>2.2%</b>	<b>1,196.3</b>	1,056.5	13.2%	<b>13.2%</b>
<i>Probiotics supplements</i>	<b>1,051.9</b>	888.3	18.4%	<b>18.4%</b>	<b>195.7</b>	299.5	-34.7%	<b>-34.6%</b>
<i>Other pediatric products</i>	<b>505.0</b>	418.5	20.7%	<b>20.7%</b>	<b>172.5</b>	147.3	17.1%	<b>17.2%</b>
Adult nutrition and care	<b>2,676.0</b>	2,799.8	-4.4%	<b>-3.3%</b>	<b>1,035.8</b>	965.9	7.2%	<b>4.2%</b>
<b>Revenue by geography</b>								
China <sup>2</sup>	<b>6,408.6</b>	5,790.0	10.7%	<b>11.0%</b>	<b>2,139.7</b>	1,974.2	8.4%	<b>7.6%</b>
ANZ	<b>881.4</b>	1,302.2	-32.3%	<b>-31.6%</b>	<b>294.0</b>	355.3	-17.3%	<b>-20.5%</b>
Rest of the world	<b>477.6</b>	472.5	1.1%	<b>1.6%</b>	<b>166.6</b>	139.7	19.3%	<b>16.9%</b>
<b>Group Total</b>	<b>7,767.6</b>	7,564.7	2.7%	<b>3.1%</b>	<b>2,600.3</b>	2,469.2	5.3%	<b>4.1%</b>

<sup>1</sup> LFL basis is used to indicate sales growth for this year compared with the same period of the previous year, excluding the impact from foreign exchange changes

<sup>2</sup> China mentioned in this media release refers to Mainland China

<sup>3</sup> For illustrative purpose, the exchange rates of AUD1= RMB4.7365 and AUD1=RMB4.7906 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 2020 and comparative figures for the same periods ended 30 September 2019, respectively.

During the nine months ended 30 September 2020, our revenue grew 3.1% on a LFL basis to RMB7,767.6 million compared to the same period of last year. This was mainly attributable to the strong performance of our business segments in China, which was supported by channel expansion, the launch of new IMF series, and strong and sustained demand for vitamin, herbal and mineral supplements (“**VHMS**”). This offset the impact of lockdowns and travel restrictions in our other markets.

This year, the global pandemic appears set to permanently change consumer demand and behavior. The strong demand we are now seeing for immunity-enhancing products and other health-related products will prove long-lasting, while the shift to digital channels and omni-channels will be irreversible. We have been highly proactive in responding to these developments and adapting our business model during the period under review, while still ensuring a stable supply of our Baby Nutrition and Care (“**BNC**”) and ANC products throughout the periodic COVID-19-related lockdowns implemented in our main markets.

The Group’s Chief Executive Officer, Ms Laetitia Garnier, said: “Our revenue growth stabilized further in the third quarter, supported by robust sales growth recovery in China, particularly in the third quarter. Our recent and targeted strategies of expanding sales channels and pivoting towards online marketing timed perfectly with the revival of consumer confidence and spending in China following this year’s lockdowns. The return of consumer spending also provided more clear evidence of an increasing appetite for immunity and health-related products – a promising opportunity for future profitable growth.

“Yet, the unprecedented global public health crisis is not yet over, even in China and ANZ where containment efforts have been highly successful. With many of our other markets entering lockdowns once again, we remain committed to providing an uninterrupted supply of essential products and services to consumers around the world. We are also equally dedicated to ensuring the safety of our employees, as well as their health and well-being. With a return to normal still nowhere in sight, our robust cash balance and cash flow, combined with the defensiveness of our business nature and the agility and adaptivity of our business model, will help overcome most challenges.”

### **Detailed Market and Category Performance – 3Q 2020**

#### *China: sustained double-digit growth with IMF sales recovering in the third quarter*

Revenue from China grew 11.0% year-on-year on a LFL basis during the nine months ended 30 September 2020, supported notably by robust growth in our online channels and a sharp increase in demand for our immunity products. Our online marketing activities proved remarkably successful, partially offsetting slower offline traffic due to the pandemic. China remains our main growth driver and now accounts for 82.5% of our total revenue, compared with 76.5% in the same period of last year. As we extend our footprint in China especially in lower-tier cities, we continue to see strong growth potential for all our business segments resulting from the ongoing product premiumization and market segmentation trends.

Within our BNC segment, our IMF business returned to growth with revenue increasing 1.4% year-on-year during the nine months ended 30 September 2020. This return to growth was attributable to particularly strong sales in the third quarter, up 12.6% year-on-year in China, thanks to the robust performance of our e-commerce business, expansion of our offline channels and highly-effective consumer engagement activities in China. In the third quarter, we prioritized accelerating our penetration into more baby specialty stores through new distributors, consumer education and the launch of two additional domestic IMF series. Our points of distribution in baby specialty stores in China further increased from 41,134 at the end of June 2020 to 44,991 at the end of September 2020. We believe these efforts will lay a solid foundation for our long-term growth in the China market. Revenue attributed to our cow milk IMF series also recovered in the third quarter, growing 5.3% year-on-year, supported by our core Biostime branded “Star Series”. In the twelve months ended 30 September 2020, we ranked fifth in the overall cow milk IMF market in China with a market share of 6.1%. Our goat milk IMF series continued to benefit from the market segmentation trend and demonstrated robust growth, accounting for 6.1% of total IMF revenue in China during the nine months under review.

Our probiotic supplements segment maintained a healthy growth rate during the nine months under review, with

revenue rising 20.3% year-on-year in China. However, we experienced a short-term sales retreat in the third quarter as demand normalized following pantry loading in the first quarter and a substantial sell-in for our Biostime branded probiotics product range in the second quarter ahead of a price increase in July. We believe the growth for probiotics will be sustained in the long-run on the back of rising health awareness in China.

Revenue from our other pediatric products segment in China grew by 48.8% year-on-year, driven by the resilient performance of our Dodie diaper lines and newly launched Biostime branded baby nutritional supplements in China.

Within our ANC segment, active sales of Swisse in China continued to rise, growing 23.9% year-over-year on a LFL basis during the nine months under review, supported by rising brand awareness, channel expansion, and fast-growing demand for Swisse's immunity ranges. Demand for our other VHMS ranges, mainly beauty-related, returned to normal. Overall ANC sales in China accounted for 60.1%<sup>4</sup> of total ANC revenue during the nine months under review. For the twelve months ended 30 September 2020, Swisse continued to maintain its No. 1 position in China's cross-border e-commerce ("CBEC") market with a market share of 5.8%<sup>5</sup>.

#### *ANZ: sales decline continued in the second half while domestic business remained stable*

Revenue from the ANZ market declined 31.6% year-on-year on a LFL basis in the nine months ended 30 September 2020, with BNC and ANC sales in this market falling by 3.6% and 32.1%, respectively. This decline in sales was primarily attributable to prolonged COVID-19-related lockdowns and travel restrictions, which negatively impacted our daigou-related business. Our domestic business, however, remained stable during the same period. For the twelve months ended 30 September 2020, Swisse's share in the Australian VHMS market was 13.5%.<sup>6</sup>

#### *Rest of the World: returned to positive growth with strong performance in the third quarter*

We see tremendous potential to expand our business into other parts of Europe and Asia as both developed and developing economies discover the benefits of health, nutrition and immunity. Apart from a sales decline in Hong Kong SAR, revenue in other overseas markets grew steadily, up 13.3% despite the logistical challenges posed by COVID-19.

We launched our brands in India on Amazon and more than 10 other major e-commerce channels at the beginning of this year, as well as in Malaysia in May. We also launched Biostime's probiotics range in Singapore, both in online and offline channels, making it our fourth global market for this range after the Hong Kong SAR, France and Australia. Following a pattern that is similar to China, we continued to see sustained growth momentum for our IMF, baby food ranges and immunity-related products in the Netherlands, Italy, France and the United Kingdom, which is hugely encouraging.

#### **Robust cash balance and cash flow**

As of 30 September 2020, our cash balance stood at RMB2.6 billion, which is RMB1.2 billion higher than the cash balance of RMB1.4 billion held as of 30 September 2019 following the planned payout of a RMB499 million dividend for the 2019 full year in July 2020. We did not experience any significant losses from foreign currency fluctuations during the nine months under review, having hedged the majority of the currency exposure related to our purchase commitments with our contract manufacturers throughout the year.

#### **Sustainability efforts recognized**

Sustainability is at the heart of our business and we are pleased that our achievements are being recognized by more and more consumers and investors. In September 2020, our MSCI ESG Research rating was upgraded from "BBB" to "A". We also received a HKQAA rating of "A" for ESG performance in the same month. We remain committed to realizing our vision: to make people healthier and happier. For H&H Group, this means operating responsibly and integrating

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<sup>4</sup> According to Nielsen, an independent research company, we ranked fifth in the overall cow milk IMF market in China with a market share of 6.1% for the twelve months ended 30 September 2020, which was generally stable compared to a market share of 6.2% for the twelve months ended 30 September 2019.

<sup>5</sup> According to research statistics by Earlydata, an independent data provider, Swisse ranked first in the China CBEC market with a market share of 5.8% for the twelve months ended 30 September 2020, compared with 5.7% for the twelve months ended 30 September 2019. The latter is different from the published data for the same period of last year following statistics adjustments on sales made on the JD.com and Kaola e-commerce platforms this year.

<sup>6</sup> According to research statistics by IRI, the share of Swisse Wellness Group Pty Ltd in the Australian VHMS market was 13.5% for the last twelve months ended 30 September 2020 as compared with 15.9% for the twelve months ended 30 September 2019.

sustainability across our business, while at the same time, continually achieving long-term business growth that benefits all our stakeholders, society, and the planet.

**Outlook: Aiming for stability through the rest of 2020**

With many parts of the world experiencing a second wave of COVID-19 infections, we will prioritize business continuity, employee safety and profitable growth during the remainder of 2020. With the pandemic unlikely to be resolved by end of the year, we will balance these priorities against the need to manage ongoing risks and protecting our resiliency and agility to cope with the challenges ahead.

In China, we expect to see gradual revenue contribution from our newly launched IMF series and from our channel expansions in the fourth quarter. Demand for our products will continue to grow as consumers seek new BNC and ANC products that satisfy their desire for health and quality living, both for themselves and their families. We will continue to deepen our penetration in channels so as to capture this demand. We also expect to see greater operational efficiency across our different brands and product categories in China, both in the offline and online markets, with synergies already emerging within our diversified BNC product ranges. We anticipate the growth rates for our IMF products to be sustained, with our probiotics segment also returning to normalized growth.

Our ANC segment will continue to grow as the pandemic fuels demand for immunity and wellness. During the nine months ended 30 September 2020, sales of Swisse's immunity range grew 38.2% globally year-on-year and accounted for 28.1% of total ANC revenue. Newly obtained "blue hat" licenses from the State Administration for Market Regulation ("SAMR") will help us further penetrate our normal trade channels in China, especially pharmacies. We expect Swisse's growth momentum in our CBEC channels to be maintained in the fourth quarter, with a strong contribution from Double 11 campaigns in November.

Following the gradual relaxation of lockdown measures in the ANZ market, our domestic business is expected to gradually recover, supported by digitalization and increased retail penetration. Sales in the Rest of the World will continue to be impacted by extended travel restrictions and lockdowns in the foreseeable future.

Margin pressure will remain throughout the rest of 2020 as a result of changes to our product, channel and market mix, including continued investments in our ANC normal trade online and offline business in China, operational deleverage in ANZ, and our expansion into new international markets. Product mix changes, such as the increasing contribution from our goat milk IMF series and diapers, will also have a negative impact on our margins. For the rest of 2020, we will continue to strive for positive revenue growth while maintaining healthy profitability

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To access the H&H Group 3Q 2020 Business Announcement: [Link](#)

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