

Media Release

8 May, 2020

H&H Group announces strong Q1 revenue and launches 2019 E.S.G. Sustainability Review

- First quarter total revenue grew 13.0 % on a like-for-like basis¹ to RMB2,423.7 million.
- Solid growth in China² revenue of 19.4%, accounting for 81.6% of Group's total revenue despite COVID-19.
- Strong cash balance and healthy cash flow ensure business continuity and future developments.
- Overall margin pressure from foreign exchange fluctuations impacting cost of goods, and changes to product and channel mix (largely due to Australian-based daigou activities).
- 2019 sustainability reporting shows significant progress across all E.S.G. categories and commitments, with strong and improved performance of environmental aspects. The Group also reaffirmed its commitment to B Corp certification goals in approach to 2025.

Global family nutrition and wellness provider, Health and Happiness International Holdings Limited (H&H Group, HKSE: 1112), has today announced robust operational statistics for the three months to 31 March 2020.

The Group's revenue grew 13.0% to RMB2,423.7 million compared to the same period of last year, with strong performance in both business segments (Baby Nutrition and Care - BNC, Adult Nutrition and Care - ANC) in China despite challenges of COVID-19 in the first quarter.

The Group's Chief Executive Officer, Ms Laetitia Garnier, outlined the results and emphasized that the pre-emptive measures taken across the global operations had placed the Company in good stead to continue delivering sustainable growth.

"Despite some operational challenges, we have proactively responded to consumer demand and adapted our business model during this period. Our agility in this regard is ensuring stable supply with little disruption during the lockdowns, alongside an enhanced ability to capture opportunities by adopting a more digital focus. Our new optimised capital structure better positions us for formulating new ways to unlock growth while continuing to build our leadership in premium family nutrition and wellness," she said.

"We remain confident about the prospects for our BNC and ANC businesses, particularly in the China market, where the performance of both segments held up strong throughout the coronavirus period and we have seen continued consumer demand for our products. Revenue from China grew 19.4% year-on-year during the three months ended 31 March 2020, with our domestic BNC and ANC businesses growing by double-digits.

"Whilst overall demand for our products has been relatively unchanged, the pandemic has resulted in pockets of uplift in some areas. In our vitamin and supplements range – primarily through our Swisse Wellness brand and Biostime probiotics – we experienced sales uplift on immunity products, initially in retail outlets and then subsequently online, as consumers moved into a period of isolation. However, the pandemic also impacted the ability of individuals to freight or carry product overseas from Australia due to travel restrictions and higher costs, so we were expecting, and have seen, that impact flow through our Swisse brands more significantly than with some of our competitors.

"In response to the COVID-19 pandemic, we have united around our mission to make people healthier and happier. We are working closely with our business partners within our supply chain and our customers and teams to support their operations and successfully navigate the challenges.

¹ Like-for-like basis is used to indicate sales growth of this year compared with the same period of the previous year, excluding the impact from merger and acquisitions and FX changes.

² China mentioned in this media release refers to Mainland China.

“In supporting our communities, we have worked with charity partners and other relief organisations to donate supplies to healthcare professionals, masks and products to those in need. We have also provided financial donations and support to assist frontline medical workers and families in need. As the situation has escalated beyond China’s borders and impacted more countries, individuals and families, our commitment continued and will remain strong into the future. Our efforts have included: sourcing and sending over 200,000 face masks to health workers, business partners and residents in China, Italy and France through the China Red Cross, cash donations for emergency medical equipment and product donations across all H&H brands, valued at over USD \$1.5 million.

“Our product portfolios are in resilient categories, and we will move forward beyond the current challenges by continuing to evolve our business model to capture growth opportunities and meet the new trends and consumer patterns. Post-pandemic, we expect the global focus on health to remain elevated, so we must be positioned to capture rising demand, as wellness gains momentum across the spectrum of life stages and both our H&H Group business segments,” Ms Garnier said.

2019 Sustainability Report

H&H Group also today released its 2019 Global ESG Report (H&H Group Sustainability Report 2019), illustrating strong progress on its commitments across all three areas of focus: the story of good health; our footprint on the planet; and honouring human rights and fairness.

“A large part of our sustainability focus in 2019 was on our environmental impact and acting on our goal of reducing our footprint on the planet. This resulted in significant improvements in our most important environmental topics: an increase in recycling, and decreases in water consumption, non-renewable electricity and emissions. We are particularly proud of achieving 87% renewably sourced electricity and reducing our emissions by 38%. We continue to offset the emissions we can't immediately reduce to maintain our carbon neutrality.”

“In line with our strategic goals and commitment to drive innovation, we stepped up our R&D investments. This included over 180 scientific reviews, 120 ingredients reviews, three filed patents, a further 200 product claims as well as delivering 199 new products. Our community arm, the H&H Foundation increased funding of community initiatives by 48% to support and improve public knowledge and behaviour around our three pillars of wellness: mind, movement and nutrition,” Ms Garnier said.

The Group has reaffirmed its commitment to achieving B Corp certification in 2025 and has realigned its sustainability strategy around this goal. This includes integrating sustainability into business and individual performance goals and significant progress on individual B Corp impact areas.

Detailed Market and Category Performance – Q1

China: delivering robust revenue growth despite COVID-19

Revenue from China grew 19.4% year-on-year during the three months ended 31 March 2020, supported by the double-digit growth of our BNC and ANC businesses domestically. The China market accounts for 81.6% of our total revenue, compared with 77.2% same period last year. This is due to continued strong consumer demand for premium nutrition and care products in China, and preventive operational measures taken at the beginning of the COVID-19 outbreak, which enabled largely normal operations and the ability to overcome temporary disruptions.

Within the BNC segment, revenue from our infant milk formula (“**IMF**”) business increased by 8.6% year-on-year, as we proactively shifted our branding, marketing and consumer engagement activities to digital channels in response to COVID-19 lockdown restrictions. Sales of Biostime branded cow milk IMF products maintained moderate revenue growth, and our new goat milk IMF, which was successfully launched in November 2019, also continued to demonstrate robust growth and accounted for 5.0% of total IMF revenue in China. In the twelve

months ended 31 March 2020, we ranked the fifth in the overall cow milk IMF market³ in China with a market share of 6.2%, which was stable compared with 6.2% for the twelve months ended 31 March 2019.

Our probiotic supplements segment experienced a pronounced uptick in demand during the three months under review, with revenue rising 36.3% year-on-year as consumers in China increasingly recognize the immune-enhancing benefits of probiotics following the COVID-19 outbreak. Revenue from our other pediatric products segment grew by 82.3% year-on-year, driven by the strong performance of our Dodie diaper lines and our Good Goût baby and kids' food range in China.

Within our ANC segment, active sales in China continued to rise, growing 32.3% year-over-year, with demand for Swisse's Immunity ranges spiking in response to rising consciousness around health and disease prevention following the COVID-19 outbreak.

ANZ: further short-term challenges in daigou channel

Revenue from sales into the ANZ was down 8.5% year-on-year, on a like-for-like basis, over the same period. The slowing of retail daigou and export sales is attributed to travel restrictions and freight disruptions caused by the COVID-19 pandemic. Production for supplements and goat milk IMF manufactured in Australia is experiencing no major disruptions.

Rest of the World: mixed performance across different regions

Revenue attributed to 'Rest of the World' fell by 9.1% year-on-year in the three months ended 31 March 2020, which was mainly attributable to a sales decline in the Hong Kong SAR market due to the COVID-19 pandemic. Despite this, we saw sustained moderate growth momentum for our IMF, baby food ranges and immunity-related products in the Netherlands, Italy, France and United Kingdom. We continued to launch our brands in new markets as planned - India launched on Amazon and more than 10 other major e-commerce platforms, while Biostime's probiotics range was introduced in Singapore, both in online and offline channels.

COVID-19

While the global supply chain for our BNC and ANC segments are currently operating normally, additional lockdowns and market volatility could put further pressure on our operations. Our future gross profit may be affected by changes to our product and channel mix, as well as from foreign exchange fluctuations and increased logistic costs that may increase the cost pressures faced by our manufacturers. However, we are building sufficient safety stock to ensure our business continuity and are closely monitoring the overall supply situation to optimize our operational efficiency.

In China, we will continue to strive to deliver sustainable growth despite the limited visibility, with new product development initiatives and channel expansion in this market remaining the two pillars of our growth strategy for 2020. Following the successful launch of the goat milk IMF series, we will continue to tap further growth momentum in China and reach more consumers with specific needs with our newly approved IMF series, Dodie diaper range, and Good Goût baby and kids food range.

The COVID-19 pandemic has opened up a new opportunity for our ANC business to capture rising global demand for immunity-boosting health products. During the three months ended 31 March 2020, sales of Swisse's immunity range grew 93.4% globally year-on-year and accounted for 38.2% of total ANC revenue. We will continue to prioritise obtaining new "blue hat" licenses from the State Administration for Market Regulation ("SAMR") to introduce more Swisse products into normal trade channels, especially pharmacies, while maintaining Swisse's current growth momentum in our CBEC channels.

Outside of Mainland China, travel restrictions throughout the first half of the year have been suppressing daigou

³ According to Nielsen, an independent market research company. Nielsen has updated its definition of market share due to its expansion of downtown boundaries and expanded coverage of rural areas in China. This has elevated our market share ranking from the seventh to the fifth in the overall cow milk IMF market in China.

activities in the ANZ market and other markets, putting pressure on our sales in these markets and causing disruption to our sales channel, which in turn will negatively affect our margins partly. Furthermore, a potential weakening of the Australian dollar may reduce the ANZ market's contribution to revenue and EBITDA when consolidated into the Group's financial statement, which is denominated in RMB.

Strong cash balance and healthy cash flow supporting future developments

Thanks to our defensive product portfolio management and agile business model, the Group generated positive cash flow and maintained a strong liquidity position during the three months ended 31 March 2020. As a preventive measure in response to market volatility, we drew down USD50.0 million from our revolving credit facility in March to build up an additional liquidity buffer. As of 31 March 2020, our cash balance stood at RMB3.08 billion, which is RMB860.0 million higher than RMB2.2 billion for the same period last year.

Furthermore, our long-term currency exposure was fully hedged in the second half of 2019 and the majority of currency exposure related to the purchase commitment with our contract manufacturers has also been hedged since the beginning of 2020.

NewH² Strategic Investments

The Group's strategic investments through NewH² in the fields of health, wellness and personalised and AI technology, are demonstrating strong momentum in providing a differentiated experience for the consumer, and we will continue to support those ventures. The partnership with Bod Australia has begun delivering synergies with the H&H business, having recently launched a CBD range in the UK under our new CBII brand, and our first hemp seed products under the Swisse brand in Australia.

NewH² recently invested in Else Nutrition, a TSXV-listed company which has developed innovative, clean and plant-based food and nutrition products for infants, toddlers, children and adults. We are particularly excited about our partnership in relation to its vegan toddler formula.

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To access the H&H Group First Quarter Business Announcement: [Link](#)

To access the H&H Group Sustainability Report 2019: [Link](#)

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