



H&H Group announces strong results and sales momentum

Media Release
26 March 2018

Health and Happiness (H&H) International Holdings Limited, parent company for Swisse Wellness and global premium family nutrition and wellness provider, confidently released its annual results (CY17) in Hong Kong today.

Of key note amongst strong all-round earnings growth, total revenue rose 24.4% to RMB8,095.3 million (approx. AUD1,563.6 million) compared to the previous year, with the Group's baby nutrition and care ("BNC") segment and adult nutrition and care ("ANC") segments contributing approximately 57.8% and 42.2% of total revenue respectively.

Adjusted EBITDA for the year was RMB2,245.5 million (approx. AUD433.7 million), an increase of 24.4% year-on-year. The Group's adjusted net profit for the year under review was RMB1,208.4 million (approx. AUD233.4 million), up 36.7% compared to the previous year.

Mr Luo Fei, Chairman and Chief Executive Officer of the Group, said "it is very pleasing that sales momentum for BNC remains strong alongside sales gain in our core ANC markets".

"Following the successful registration of our key infant milk formula products, our main focus now is to deploy more innovative marketing initiatives that will expand consumer awareness and drive further growth.

"We are confident that we have in place a sustainable growth strategy across all our international territories which will firmly establish H&H as a global leader in premium family nutrition and wellness.

"H&H will also continue to develop strategic partnerships that will further support the development of our online and offline businesses."

During the year the Group completed the acquisition of the remaining 17% minority interest in Swisse Wellness and subsequently accelerated its integration by bringing all of its businesses together under a new Group name that reflects its new corporate mission, vision and positioning as an all-round premium nutrition and wellness provider.

The Group also terminated Swisse's partnership with PGT Healthcare, making it the sole owner of the Swisse brand and of the distribution rights for its expansion into new global markets.

H&H's four aspirational brands – Biostime™, Swisse™, Healthy Times™ and Dodie™ – continued to gain recognition in new international markets, having already

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established market positions in Australia, New Zealand, China, France and the United States.

Financial Result Snapshot

<i>RMB million unless otherwise stated</i>	<i>For the 12 months ended 31 December</i>		<i>% Change</i>
	2017	2016	
Revenue	8,095.3	6,505.6	24.4%
Gross profit	5,265.6	4,059.1	29.7%
Adjusted EBITDA ¹	2,245.5	1,804.7	24.4%
Adjusted Net Profit ²	1,208.4	884.0	36.7%
Adjusted EPS	RMB1.92	RMB1.25	53.6%

Revenue derived from the BNC business increased by 22.5% in 2017, compared to the previous year, as the result of robust growth of both the Group's infant milk formula ("IMF") products and probiotics supplements. The Group saw strong sales momentum for its premium and super premium IMF series, which grew 18.5% in 2017, compared to the previous year, due to overall market growth, consumption trade-up and strong branding initiatives.

These branding efforts included the appointment of Chinese famous actor, Liu Ye (劉燁) and French movie star, Juliette Binoche as ambassadors for Biostime™'s IMF and probiotics products, which further strengthened the brand's positioning in the premium and super premium segments – a market that will continue to expand alongside the introduction of new IMF registration rules in China on 1 January, 2018. On this same date, the Group also successfully registered five product series with the China Food and Drug Administration's ("CFDA"), including three existing series renamed α-star, β-star and π-star series under the Biostime™ brand, the organic series under the Healthy Times™ brand, as well as the Manle series under the Adimil™ brand.

The sales momentum of the Group's probiotics products segment remained strong throughout 2017, with revenue derived from this segment reaching RMB781.7 million, an increase of 54.7% compared to the previous year, as a result of rising demand due to heightened awareness in China of the benefits of probiotics, effective marketing initiatives, as well as the introduction of a high-profile brand ambassador for the first time. In September 2017, the Group also launched a premium Dodie™

¹ EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the year ended 12 months ended 31 December 2017 amounted to RMB2,060.4 million (2016: RMB2,043.1 million). Adjusted EBITDA = EBITDA – net foreign exchange gains + net fair value losses/(gains) on derivative financial instruments + fair value loss of financial liabilities associated with put options + one-time expense paid to the original shareholders of Swisse on some tax refund + one-time restructuring costs on early childhood education business + non-recurring integration costs

² Net profit for the year ended 12 months ended 31 December 2017 amounted to RMB928.5 million (2016: RMB1,052.0 million).

Adjusted net profit = adjusted EBITDA – depreciation and amortization – finance costs + interest income – income tax expenses + one-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back + non-recurring loss on redemption / repurchase of convertible bonds + bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse in 2017/re-financing in 2016

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diaper range in China, which has been well received by consumers who prefer premium products and are attracted to the Dodie brand which is a household name in France.

The Group's ANC segment, operated under the Swisse brand, recorded strong sales momentum in all of its core markets in 2017, rising 21.5% on a currency-adjusted basis to AUD659.4 million, compared to the previous year. This growth was primarily attributed to consumer demand, the clearer cross-border e-commerce ("CBEC") regulatory environment in China, as well as strong branding initiatives and successful product launches. These branding and marketing initiatives included entering into a partnership agreement with the Scuderia Ferrari F1® Team and promotions using new and existing brand ambassadors – movie superstars Fan Bingbing (范冰冰) and Nicole Kidman.

According to research statistics by IRI, an independent market research company, Swisse continued to retain its leading position in the Australian vitamin, herbal and mineral supplements ("VHMS") market, with a 16.1% market share for the twelve months ended 31 December, 2017.

Swisse's normal trade in China was launched on 8 April, 2017, starting with hero products such as Hair, Skin and Nails, and Cranberry Concentrate in liquid and effervescent forms. To accelerate both its CBEC and normal trade businesses in China, the Group also invested significantly in its partnerships with major e-commerce platforms, including Tmall.com, NetEase Kaola.com, JD.com and VIP.com to develop marketing campaigns and sponsorship activities, such as the 'Singles Day' campaign, which enhanced brand awareness and drove consumer demand. The Group also developed strategic partnerships with online platforms and retailers in China, including xiaohongshu.com and AliHealth on the Tmall platform, among others. It also continued to leverage existing distribution channels in the offline market to broaden Swisse's sales network, including baby specialty stores such as Kidswant, personal healthcare stores such as Watsons and Mannings, as well as high-end supermarkets such as Sam's Club and Ole'. The Group expects to expand into new sales channels in China, including cosmetic stores such as Fionacos (Yan Li), while also further exploring other opportunities for sales growth and for growing its brand presence.

Looking forward, the Group will continue to expand its international footprint via its regional hubs in Europe, Asia, Oceania and North America, as well as through new initiatives in R&D and brand building, while continuing to implement the 'Premium, Proven and Aspirational' ("PPA") model as its core business strategy. This includes implementing innovative marketing campaigns and celebrity endorsements that positively convey the image of its brands on a local and global scale.

In the BNC segment, the Group recently submitted two new IMF series for registration under the CFDA's new registration rules in order to meet consumer demand for IMF products at different price points. It anticipates that these series will be approved by the authorities around the mid of 2018. It will also continue to broaden its offline presence globally, building on the earlier launch of the Healthy Times™ brand in the United States and the Biostime™ branded organic IMF series



in France, to capture opportunities in the fast-growing baby organic formula and baby care accessories markets.

For the ANC segment, the Group plans to launch a wide range of innovative products under the Swisse brand, further extending its business into other territories, while building sustained leadership in the Chinese market. It will also leverage its expanding sales resources to grow Swisse's offline presence in China's fast-growing VHMS market, while progressively introducing a more complete range of food supplements in this market. The Group has submitted filing applications in China for various supplements, such as its Calcium + Vitamin D hero product.

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