

4TH STATUS UPDATE ON 31 DECEMBER 2019 FINANCIAL STATEMENTS

Eagle Health Holdings Limited (**ASX – EHH, or the Company**) wishes to provide this detailed update to the market in relation to the issues impacting on the finalisation of the 31 December 2019 financial statements (**2019 Financial Statements**) and the status of resolution of those issues.

This announcement provides additional information that complements previous announcements made on 1 April, 21 April and 4 May 2020 in relation to these issues.

The Directors of the Board of EHH have decided to issue this announcement due to recent events that have further delayed and frustrated the resolution of these issues (as described in this announcement).

1. Background and overview of key Verification Issues outstanding

On around 30 March 2020, EHH's external auditor, Grant Thornton Australia (**Grant Thornton**), experienced problems completing certain audit verification issues (**Verification Issues**) in relation to EHH's mainland Chinese based financial, including banking, records. Those issues have prevented the finalisation of the 2019 Financial Statements to date.

Those issues relate to banking and financial matters under the day to day control of EHH's main Chinese operating entity, Xiamen Eagle Don Pharmaceuticals Co., Ltd (**Eagle Don**) including matters relating to Eagle Don's banking affairs with its main operating bank, the Agricultural Bank of China (**ABC Bank**).

Broadly, the Verification Issues fall into 4 categories, as follows (with the current status in relation to each issue also included below):

1.1 Issue 1: Problems with Grant Thornton's ability to complete the ABC Bank bank confirmation process independently of Eagle Don

We understand that Grant Thornton, as part of its usual audit verification practices, has sought a Bank Confirmation Letter (**BCL**) and copies of Eagle Don's banking statements directly from the ABC Bank.

Grant Thornton has sought to undertake this process on 3 occasions, most recently on 24 June 2020. EHH has been informed by Grant Thornton that on each occasions different issues have prevented the confirmation process from being completed to Grant Thornton's satisfaction. For example, EHH was informed by Grant Thornton that Grant Thornton's Chinese agent audit firm (**GT China**):

- (a) on one occasion was met by Eagle Don representatives outside the ABC Bank and not inside at the branch counter as had apparently been pre-arranged between GT China and Eagle Don;
- (b) on one occasion was provided with the required BCL directly from Eagle Don and not directly from the ABC Bank personnel;
- (c) on one occasion queried why the Eagle Don stamp (or "chop" as it is referred to in China) was affixed to the BCL letter provided to GT China;
- (d) on one occasion was prevented from then entering the ABC Bank branch to seek to independently obtain the BCL. The explanation given by Eagle Don was that entry was impossible due to the bank's COVID-19 access restrictions in place at the time;

- (e) on the latest attempt to perform the BCL that the process was not conducted in accordance with initial instructions sent to Eagle Don and as a result GT are currently unable to rely on the information received.

The Australian based Directors of the Board of EHH (**Australian Directors**) and Grant Thornton have requested and received various explanation from Eagle Don in relation to many of the above issues and are currently seeking clarification from Eagle Don on the issues raised by Grant Thornton about the BCL processes carried out on 24 June 2020. In relation to:

- (f) 1.1(a), 1.1(b) and 1.1(d) above, Eagle Don has advised that as the pre-agreed GT China personnel attending the ABC Bank changed without notice to Eagle Don or the ABC Bank, the GT China person who attended was not allowed access to the Bank;
- (g) 1.1 (c) above, Eagle Don has provided Grant Thornton with information in relation to Chinese procedures issued by the Ministry of Finance and China Banking Regulatory Commission that seek to strengthen internal bank controls on bank letters and which appears to require Eagle Don's chop to be included on the BCL and for that chop to be verified by the Bank against its own records. Eagle Don have advised that the information provided is based on independent legal advice that it obtained from a reputable Chinese law firm. The Australian Directors, nor we understand Grant Thornton, have not independently verified that advice.

The above issues remain outstanding while discussions between the Australian Directors and Grant Thornton and Eagle Don has continued since March 2020. As noted above, the Australian Directors are also now requiring explanations from Eagle Don in relation to issues which prevented the 24 June 2020 BCL process from being completed to Grant Thornton's satisfaction.

1.2 **Issue 2: Problems with reconciling Eagle Don's VAT invoicing against relevant PRC Government systems**

On 31 March 2020, GT China attended Eagle Don's Xiamen (China) premises to sight the log in process for Eagle Don's VAT declaration system and to obtain a copy of the December 2019/January - February 2020 VAT declarations. The GT China team also requested to sight and review the Eagle Don log in to the relevant Government's "Jinshuipan" invoice system.

Eagle Don has informed Grant Thornton and EHH that Eagle Don's system is not linked to the official Government system as the relevant provincial government is in the process of rolling out a new VAT invoicing system in Xiamen.

Eagle Don noted that due to the impact of COVID-19 there is no clear timing for companies to be linked to the new VAT system being implemented and that, accordingly, the company no longer uses the old VAT online system and has to physically attend the Government department around the 15th of each month to verify the invoices manually. Further, Eagle Don noted that from 1 March 2019, according to policies issued by the State Administration of Taxation, from that date, customer invoice verification for VAT invoices is no longer performed.

Grant Thornton has advised that it is not satisfied with Eagle Don's response above and has indicated that, at the appropriate time, it will need to redo the VAT verification processes in order to be satisfied in relation to those matters.

Further, EHH (as previously advised to the market) has engaged one of the Big 4 accounting firms, as an independent accountant, (**Independent Accountant**) to also assess, amongst other things, Eagle Don's compliance with the VAT invoicing requirements. The Independent Accountant sought to undertake some desktop analysis of a representative sample of invoices provided by Grant Thornton. The Independent Accountant has noted that they were unable to verify the sample invoices against the National Tax Bureau VAT Verification Platform. The Australian Directors understand that the failure to

verify the invoices through the national platform is a concern but is not necessarily an indicator of those invoices being invalid or fraudulent. The Independent Accountant is not able to form any conclusions on those matters without undertaking further work. Further work on this issue is included in the scope of work for the Independent Accountant. However, for the reasons set out in section 3 below, that work has not commenced yet.

1.3 Issue 3: Eagle Don invoicing of deregistered companies

Grant Thornton has informed the Board of EHH that GT China found approximately 24 invoices in their sample of tax invoices in which Eagle Don had made sales to deregistered companies in China. Grant Thornton noted that those invoice samples included Eagle Don's top 10 customers for the relevant period.

EHH has requested an explanation from Eagle Don for those matters. Eagle Don has responded that they do not consider it unusual in the Chinese market for Companies in their industry to be dealing with deregistered companies and have noted that they have procedures in place to check the creditworthiness of customers. Eagle Don noted that due to sales through e-commerce, including we-chat platforms and other on-line sales this was not unusual.

EHH has been advised by the Independent Accountant that it does consider the proportion of deregistered customers to be potentially unusual and that this requires further investigation and analysis; however, without access to Eagle Don the Independent Accountant has noted that it cannot form a conclusion on those matters. Neither the Independent Accountant, nor EHH has determined that the proportion of deregistered customers are in fact unusual. The Independent Accountant is in the process of performing a desktop review of the sample invoices and customers (based on information provided to Grant Thornton by Eagle Don) and will shortly be providing a report to EHH on those matters.

1.4 Issue 4: Eagle Don Debtor Confirmation Letters

In performing the audit EHH was advised by Grant Thornton that it, or GT China, had mailed 23 customer confirmation letters (**Debtor Confirmation Letters**) to a selection of Eagle Don debtors during their visit to Eagle Don in January 2020. Those letters, apparently, specifically requested that the customer debtors forward their confirmation letters directly to Grant Thornton's office in Hong Kong.

Grant Thornton advised EHH that all of the 23 Debtor Confirmation Letters were returned to GT China by Eagle Don and that none of the letters were mailed directly to Grant Thornton Hong Kong. Accordingly, GT China refused to take possession of those letters.

Eagle Don confirmed that they had requested that the customers complete the Debtor Confirmation Letters and that Eagle Don sales personnel managed and received those letters from the customers and sought to provide them unopened to GT China. Eagle Don also advised Grant Thornton, apparently based on legal advice from Eagle Don's Chinese based external law firm, that requiring the letters to be sent by customers to Hong Kong may also breach China's regulations on auditing of mainland Chinese enterprises as working papers were required to be retained in mainland China. It is not clear to EHH whether that position was determined by Eagle Don before the Debtor Confirmation Letters were requested to be sent to Eagle Don or after the fact. Eagle Don also noted that the timing of requesting the Debtor Confirmation Letters was during the COVID-19 pandemic and also the riots in Hong Kong and that many courier companies were not operating. Accordingly, Eagle Don advised that it requested the customers to send the confirmation letters to Eagle Don directly so as to assist with the process. As GT China was unable to take possession of those letters due to their inability to verify their authenticity, this issue remains incomplete.

1.5 Additional subsidiary issues

The Australian Directors note that Grant Thornton has raised other issues (**Subsidiary Issues**), which the Australian Directors consider are subsidiary to the 4 issues outlined above. The Australian Directors note that they have asked Eagle Don to provide a written response to those issues so that the EHH Board can reply to Grant Thornton on those matters. Those responses, at the date of this announcement, remain outstanding.

1.6 Australian Director(s) access to Eagle Don Bank Accounts and explanation for related issues

The Australian Directors have requested that Eagle Don provide at least one of the Australian Directors with read only access to the Eagle Don bank account(s) with ABC Bank. Eagle Don has provided the Australian Directors with details of the Bank procedures to be followed to enable that to occur. However, part of the procedure requires the relevant Australian Director to attend the ABC Bank branch in China to be able to complete the process. This has not been able to be progressed due to COVID-19 travel restrictions. The Australian Directors intend to seek this access once travel restrictions are lifted and in the interim is assessing what other steps they can take to get access to the banking records of Eagle Don.

The Australian Directors also issued a demand to Eagle Don (via the China CEO's newly appointed external legal adviser in Perth) that by 11 am (WST) on 2 July 2020, Eagle Don provide the Australian Directors with information in relation to one of the Subsidiary Issues and also:

- (i) Bank Records: Certified (or "chopped") copies of Eagle Don's main trading account(s) records for the period of the 31 December 2019 financial accounts and for the period from then until 31 March 2020;
- (ii) VAT: A more detailed and fuller answer to the VAT issues which Grant Thornton has queried of Eagle Don; and
- (iii) Deregistered Companies: Information to demonstrate that the invoices relating to the Deregistered Companies identified by Grant Thornton have been paid by the relevant deregister company customers.

The Australian Directors note, whilst there is a stated willingness by Eagle Don to provide this information, that they have not received the above information by the time that this announcement has been released.

2. Steps EHH is taking to resolve these issues so that the 2019 Financial statements can be completed

In addition to the information and steps noted in section 1 above; EHH notes that the Australian Directors have sought to extensively engage with Eagle Don and Grant Thornton to resolve these issues expeditiously. EHH has also held several Board meetings where explanations and cooperation has been sought from the China CEO of Eagle Don (who is also an EHH Board member).

The Australian Directors attempts to do so, including with the appointment of the Independent Accountant to assist, have been met by a refusal of Eagle Don to cooperate with the appointment of the Independent Accountant, with Eagle Don citing that Eagle Don would not cooperate with the Independent Accountant until Grant Thornton and GT China reperform the audit work in relation to the 4 outstanding issues identified in section 1 above.

Eagle Don cites concerns over what they consider to be unnecessary additional external costs to EHH. Eagle Don has stated that, if Grant Thornton re-performs the audit work in relation to the 4 Issues stated above and is unsatisfied with the outcome of that work then Eagle Don will cooperate with the Independent Accountant's work.

The Australian Directors have advised Eagle Don on a number of occasions that they do not accept that position and that they demand (in accordance with the EHH Board resolution appointing the accountant) that the Independent Accountant is provided with access to Eagle Don's books and records immediately. Eagle Don's position has not changed despite those demands.

The Australian Directors considers it critical that the Independent Accountant commences its work as the scope of work of that work is broader than the audit work to be performed by Grant Thornton and GT China and includes the requirement for the Independent Accountant to provide advice to EHH on steps to be taken to ensure that similar issues do not arise in future audits.

The Australian Directors note that Eagle Don has also raised other issues in relation to confidentiality and assurances regarding the independence of the Independent Accountant, which the Australian Directors have responded to.

The Australian Directors understand that COVID-19 and also the potential for differences in audit practice between China and Australia have added to the delays being incurred, but until receiving responses from Eagle Don, remain concerned about Eagle Don's lack of satisfactory engagement with Grant Thornton and cooperation with the Independent Accountant.

In addition to the above steps taken, the Australian Directors are taking legal advice in relation to the steps that they can take to ensure that EHH and its advisers have access to Eagle Don books and records and that governance issues relating to EHH's Greater China structure and operations are addressed so similar issues do not arise in the future. This includes the recent appointment of both Hong Kong and mainland Chinese legal advisers to advise EHH on matters relating to these issues which are governed by Hong Kong and mainland Chinese laws.

The Board is also carrying out, internally and with the support of MinterEllison (its external legal adviser), a review of EHH's reporting and financial information provisions framework, including in the context of 100% of EHH's revenue being derived from its China operations. That work will result in the finalisation of a refreshed reporting framework to strengthen periodic and ad-hoc reporting from EHH's China subsidiary to EHH. This work has included requesting confirmations from Eagle Don's Chief Financial Officer in relation to the capability of the finance team in Xiamen to be able to provide all required information to EHH. That work is on-going.

3. Grant Thornton's position on the Verification Issues

Grant Thornton had advised EHH that, due to delays in receiving what they consider to be satisfactory responses from Eagle Don on Issue Number (3) (VAT reconciliation) they were unwilling to re-perform the other audit verification steps in relation to the other 3 Verification Issues. However, following urgent requests by the Australian Directors, Grant Thornton agreed to instruct GT China to seek to re-perform the Bank Confirmation process (Issue 1) and that process was reattempted (as noted above) on 24 June 2020. The Australian Directors understood that if the BCL process was completed to Grant Thornton's satisfaction then Grant Thornton would seek to re-perform the audit work in relation to the other outstanding Verification Issues. As the 3rd BCL attempt was not completed to Grant Thornton's satisfaction, the Australian Directors have requested advice from Grant Thornton in relation to Grant Thornton's views on the next steps to be taken.

4. EHH's auditors concerns

Grant Thornton has expressed concerns to EHH in relation to the delay resolving these issues including with Eagle Don's intervention with some of the processes that Grant Thornton has required.

Grant Thornton have notified EHH by letter that *"The lack of verification and the potential for interception of information means that we cannot be satisfied that there is no prospect of fraudulent activity occurring. We have no evidence of actual fraudulent conduct. The suspicion of fraudulent conduct arises not through evidence of same but rather the shortcomings in the verifications being provided."*

EHH notes that Grant Thornton has stated that they have "no evidence of actual fraudulent conduct", and notes that the Australian Directors also have no evidence of fraudulent activity or other financial irregularity occurring within Eagle Don, but has concerns about the delays and lack of willingness to cooperate with the Australian Directors and Independent Accountant. To ensure that these issues are clarified and the audit resolved, the Australian Directors are seeking to urgently secure access to Eagle Don for the Independent Accountant to review and advise EHH on these matters.

The Australian Directors continue to demand that Eagle Don provided all support to Grant Thornton, and GT China and that it immediately allow the Independent Accountant access to Eagle Don books and records.

The Australian Directors instructed the Independent Accountant to attend Eagle Don premises in Xiamen on 3 occasions in May and June to start working in accordance with a scope of work approved by the EHH Board. On each of those occasions, Eagle Don did not allow access to the financial records, again citing that they considered Grant Thornton and GT China should complete their audit work before any work is performed by the Independent Accountant.

As noted above, the Australian Directors are taking advice on the steps that they can now take to ensure access to Eagle Don's books and records and to ensure that the work required of the Independent Accountant can commence urgently.

This update has been approved for release by the Board of Eagle Health Holdings Ltd.

-ENDS-

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About Eagle Health Holdings Limited

Eagle is an ASX listed vertically integrated health and nutritional products business which develops, manufactures and distributes products into 26 provinces in China. Eagle has collectively more than 300 Zhang Lao San exclusive product stores and franchised stores throughout China, with a further 271 distribution partners placing Eagle's branded products into more than 30,000 outlets across the country. Eagle produces a range of traditional Chinese Medicine and Western nutritional products including amino acids, protein supplements, lozenges and dendrobium oil. Eagle has a GMP certified manufacturing facility and a Head Office in Xiamen, China, acting as a central hub for distribution into Chinese pharmacies, health food stores, trading companies and supermarkets. Eagle has a corporate and sales office in Melbourne, Australia. Eagle has a stated strategy of acquiring or partnering with quality Australian products for distribution into China.

For more information visit: www.auehh.com.au or www.eaglehealthltd.com/EN/index.aspx