



Eagle Health Holdings Limited

ASX Announcement

23 October 2019

Eagle Health Holdings - Operations Update

Eagle Health Holdings Limited (ASX: EHH) ("Eagle Health" or "Company") provides the following Operations update.

The changing Retail distribution channels in China

Euromonitor reports that as a new generation of consumers becomes the major workforce in China, convenience stores are gaining popularity, with the advantages of both convenient location and unique product offerings, designed to meet daily essentials.

Driven by consumers' increasing demands for experience, non-grocery retailers are focusing on in-store service improvements to adapt to changing consumer habits.

E-commerce players have expanded their footprints into new offline store formats and are penetrating lower-tier cities to expand their consumer base. With profound evolution of the retail environment, consumers' demands have shifted vastly. They are putting greater value on convenient, fresh, high-quality and personalised products and services.

The fast development of internet retailing has dramatically changed consumer shopping habits and contributed to the prevalence of new retail formats.

Meanwhile, e-commerce players are now expanding their businesses to integrate with traditional retailers to build data-driven businesses, focusing on consumer experiences and maximising operational efficiency.

Hyper connectivity, immediacy and transparency are influencing the consumers when it comes to retailing. Proliferation of digital media has made information and interaction between brands and consumers more accessible and transparent. Retailers are turning to digital channels and integrating physical and online stores to capture all segments of consumers through their omni-channel strategy.

Eagle Health addresses the changing landscape of retail in China

Zhang Lao San (ZLS) stores - ready to meet the changing consumer behaviour

Eagle Health has previously announced the roll-out of 100 ZLS health and experience stores, located in 16 provinces in China, focussed on addressing this changing landscape of retail.



Eagle Health Holdings Limited

Stores generally cover an area of 50-100 square meters, are located close to large, mature residential communities or a place with high foot traffic, and are positioned to service populations of 50,000-80,000 people within 3-5 km. The number of store visitors is expected to be 50-100 persons per day, with customer contact through social media contacts, local promotions, client referrals, and the reputation of Eagle Health.

After initial promotional activities, it is expected the store's revenue will gradually increase. Each store sells both Zhang Lao San and Eagle Health branded products.

Along side the 100 direct stores, Eagle is also rolling out a franchise store model. To date 300 franchise stores have been established, typically in existing pharmacies, health food stores and supermarkets.

The Financial Structure of the new Zhang Lao San model

In Eagle Health's 2019 Half Yearly Financial Report, the Company reported Contract Assets in the form of one-off sales support allowances to the store operators amounting to \$32.1 million. This investment relates to the establishment of the Company's 100 ZLS health and experience stores, and in particular, store establishment, renovation, acquisition of fixtures, fittings and furniture, racking, signage and pre-opening activities. Once opened, costs include promotion and advertising, social media and WeChat promotion, and staff training.

In line with Accounting Standard AASB 15, the sales support allowances and rental allowances have been recognised as Contract Assets (and Contract Liabilities) in the statement of financial position.

The sales support allowances are amortised over the cooperation period of 3 years based on future sales patterns estimated by management.

This has resulted in negative operating cash flows and reduction in the gross margin for the first half year of 2019 as compared to the first half of 2018.

E Channels

Alibaba and JD are the top two online sales platforms in China.

Eagle Health is currently selling its most popular products online using these e channels. These products include Amino Acids, Dendrobium, Collagen and Throat Lozenges.

The Company expects online sales to continue to grow rapidly and expand as a percentage of overall sales in the future.



Eagle Health Holdings Limited

TV Sales Channel

In 2019, as previously reported, Eagle has significantly increased its use of marketing and promotion using TV Channels both within selected Chinese Provinces and Nationally. Currently the Company is promoting its products and gaining sales using 14 TV stations, looping every day, with each program running for 45 minutes. Products being promoted using this channel include ginseng oral tablets and bird's nest.

Australian honey products have been sourced in Australia, exported and are now in Shanghai undergoing customs clearance before distribution.

Australian sourced products continue to enjoy significant demand in China and the Company aims to capitalise on this demand now and into the future.

Zhang Ming Wang CEO said "Eagle Health have previously reported on the rapidly changing retail distribution channels and have adopted a new model to address changing times. We look forward to our loyal investors following us on this journey and seeing enhanced returns in revenue growth and profit "

Update on Supply Chain

In the Eagle Health 2018 Annual Accounts, it was reported that the Company had prepaid \$16.7 million for raw materials. This strategic decision enabled the company to both secure a critical supply of raw materials for the production of Traditional Chinese Medicine products, and to stabilise the price of such materials for a two-year period.

The Company has drawn down \$1.6 million of this pre-payment in the first half of 2019. Because the raw materials involved are agricultural based and the harvesting season is predominantly in the second half of the calendar year, it is expected that there will be a greater drawdown in the second half of 2019 and 2020.

The prepayment continues to meet its objective and will position Eagle Health competitively in 2019 and 2020.

-END

CONTACT

Steven Shao

Investor Relations

T: +61 3 8593 7378

E: steven@aeuehh.com.au

Kobe Li

Company Secretary

T: +61 3 8593 7378

E: kobeli@aeuehh.com.au



Eagle Health Holdings Limited

About Eagle Health Holdings Limited

Eagle Health is an ASX listed vertically integrated health and nutritional products business which develops, manufactures and distributes products into 26 provinces in China. Eagle Health produces a range of traditional Chinese Medicine and Western nutritional products including amino acids, protein supplements, lozenges and dendrobium oil. Eagle Health 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 Health has a corporate and sales office in Melbourne, Australia. Eagle Health 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