

This report provides a summary of relevant data and documents we received in response to Freedom of Information Act (FOIA) requests we filed on this company.

Confirmed, Undisclosed SEC Investigation

Watch List Status: Maintained on Watch List of Companies with Undisclosed SEC Investigations

An undisclosed SEC investigation is again confirmed. With new data reflected in this report, **Natural Health Trends Corp. remains on our Watch List** of companies with undisclosed SEC investigations. The first response indicating an SEC investigation was dated 10-Nov-2016. On-going enforcement proceedings now confirmed four times since.

We note the company's been disclosing problems with internal controls. Per the 10-Q filed 01-Aug-2018, "... our disclosure controls and procedures were not effective as of June 30, 2018."

In addition, in a press release and 8-K, both dated 20-Jul-2018, the company said, "On July 20, 2018, Natural Health Trends Corp. issued a press release announcing it is unaware of any investigation by a provincial police department in China ..."

Similar stories about problems in China circulated in early 2016.

Since we know there was at least one investigation in the recent past, we recommend those with an interest ask Natural Health Trends Corp. what contact it has had with the SEC's Division of Enforcement in the past two years. Keep in mind that a public company can be involved in more than one SEC investigation at a time.

From the Probes Reporter Database:

We filed our first FOIA request on this company in **Feb-2016**.

If we alert you to the existence of an undisclosed SEC investigation – or any response from the SEC – that means we filed a FOIA request on the company in question and have a response, in black-and-white on government letterhead, that supports our statement.

Below is the SEC response history for this company:

9-Feb-2016	FOIA Response	No SEC investigative records found.
10-Nov-2016	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
22-Nov-2016	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.

Disclosure Insight®

There's a lot to be concerned about here. We first learned about an undisclosed SEC investigation at Natural Health Trends in Nov-2016. It's still undisclosed. A look at the mosaic that's formed up over the past few years points to a troubled company. Here's where to focus –

First look at problems in China. Per the company, "Because our Hong Kong operations account for a substantial portion of our overall business, and substantially all of our Hong Kong business is derived from the sale of products to members in China, any material adverse change in our business relating to either Hong Kong or China would likely have a material adverse impact on our overall business."

We found repeated instances where reports alleged Chinese authorities had raided, shut-down, or otherwise were investigating the company. These were paired with denials of any such investigative activity by the company. (We're still waiting for them to comment on our repeated warnings of SEC investigative activity.) We also found problems with internal controls. When added to stories coming out of China, we can think of no better time to press this company on what's really going on with the SEC.

--John P. Gavin, CFA

1-Jun-2017	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
16-Jun-2017	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.
27-Dec-2017	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
30-Jan-2018	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.
30-Aug-2018	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
25-Sep-2018	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.

When research history is available in our database, we present it above so you can compare it to company disclosures. Other interpretative guidance and disclosures appear below.

As can be seen in the table above, at least once in the past the SEC cited the "law enforcement exemption" of the Freedom of Information Act (FOIA) as basis to deny the public's access to the detailed records we sought on this company. As a matter of law, the SEC is acknowledging some sort of investigative activity with this response. We filed an appeal with the SEC's Office of the General Counsel to challenge that response. In response to our latest appeal(s), the date(s) of which is/are also shown in the table above, the SEC stated, "We have confirmed with staff that releasing the withheld information could reasonably be expected to interfere with on-going enforcement proceedings."

While the SEC as a matter of course tells the public that an on-going investigation should not be construed as a finding of any wrongdoing, the public interest is understandably high in tracking these investigations and their outcome. In this case, our research shows these SEC proceedings are undisclosed by **Natural Health Trends Corp.**

Notable Disclosures: Repeated searches of this company's SEC filings, back to Dec-2014, found no clear disclosures of SEC investigative activity.

Documents Acquired Under the Freedom of Information Act: None in our library at this time.

Supplemental Data:

From the Natural Health Trends Form 10-Q filed 01-Aug-2018:

Disclosure Controls and Procedures

Management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2018. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the principal executive officer and principal financial officer concluded that, due to a material weakness in internal control over financial reporting described in Part II, Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2017, our disclosure controls and procedures were not effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

Other than with respect to the remediation efforts discussed below, there were no changes in internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Remediation Efforts to Address Material Weakness

Management, with oversight from the Audit Committee, has implemented a plan intended to remediate the material weakness related to our proprietary web-based system and strengthen our internal control environment. The remediation plan includes the following:

Enhancement of controls to ensure that the system change management log is adequately backed up, secured and sufficiently maintained; and

Initiation of periodic review and testing of user access rights and permissions.

During the second quarter of 2018, we continued to enhance our controls related to the backup of our proprietary web-based system change management logs and have begun testing those controls. We also are continuing with monthly reviews of user access rights and permissions and have completed the required programming changes regarding certain rights that were not previously provisioned. Additional programming changes to improve user access rights and permissions are on-going. We also continue to review and develop additional controls and procedures to improve our control environment, including compensating review controls for our proprietary web-based system. We expect that the remediation of this material weakness will be fully complete during 2018.

From the Natural Health Trends Corp. 8-K filed on 20-Jul-2018:

On July 20, 2018, Natural Health Trends Corp. issued a press release announcing it is unaware of any investigation by a provincial police department in China, as reported anonymously on a Chinese website. A copy of the press release is furnished as Exhibit 99.1 hereto and is incorporated herein by reference.

From the press release –

Natural Health Trends Issues Response to Allegation

LOS ANGELES – July 20, 2018 – Natural Health Trends Corp. (NASDAQ: NHTC), a leading direct-selling and e-commerce company that markets premium quality personal care, wellness and “quality of life” products under the NHT Global brand, issued the following statement in response to an allegation made against the Company through an online posting from July 19, 2018.

“It has been brought to our attention that a Chinese website cited an anonymous source alleging that we are under investigation by a provincial police department in China. We are unaware of such an investigation,” commented Chris Sharnq, President of Natural Health Trends Corp. “Should we learn of any material information regarding this allegation, we will promptly notify the investment community.”

From the Natural Health Trends Form 10-Q filed 02-May-2018:

Remediation Efforts to Address Material Weakness

Management, with oversight from the Audit Committee, has implemented a plan intended to remediate the material weakness related to our proprietary web-based system and strengthen our internal control environment. The remediation plan includes the following:

Enhancement of controls to ensure that the system change management log is adequately backed up, secured and sufficiently maintained; and

Initiation of periodic review and testing of user access rights and permissions.

During the first quarter of 2018, we began the process of revising our controls related to the backup of our proprietary web-based system change management logs and believe those controls are now providing the necessary audit trail. In addition, management has completed its initial review of user access rights and permissions and will continue to perform periodic reviews of user access rights and permissions; however, the required programming changes necessary to improve user access rights and permissions is on-going. We also continue to review and develop additional controls and procedures to improve our control environment, including compensating review controls for our proprietary web-based system. We expect that the remediation of this material weakness will be fully complete during 2018.

Independent Investment Research Focused on Public Company Interactions with the SEC.

Notes: *New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. The SEC did not disclose the details on investigations referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies referenced above. Companies with undisclosed SEC investigations are maintained on our Watch List of companies with undisclosed SEC investigations.*

The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security.

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