

INTERVIEW-UPDATE-Eratat banks on fashionable Chinese for growth

By Charmian Kok and Lavrina Lee

SINGAPORE, Sept 2 (**Reuters**) - Footwear and apparel maker **Eratat Lifestyle** , which is expanding its retail footprint in China, may enter the big league and open its first store in the country's fashion capital, Shanghai.

Formerly known as China Eratat Sports Fashion, the firm started out making sports shoes and apparel, but changed tack to focus on casual and fashion wear as an influx of sportswear makers resulted in a glut in the market.

"Consumer spending has increased by leaps and bounds. As your living standard increases, naturally your fashion taste will also evolve," Eratat's Chief Financial Officer Ken Ho told **Reuters** on Thursday.

"Perhaps (Chinese consumers) will not go for cheap, but for branded goods, and that's why brand equity is what we value most."

The firm, which became famous for sponsoring the Beijing Olympics official theme song in 2008, is banking on advertising campaigns featuring popular Chinese singer Wang Lee Hom to help establish it as a trendy lifestyle brand.

It has also teamed up with several Chinese television channels like CCTV5 to sponsor reality TV programmes.

"We foresaw that there would be intense competition in terms of pricing and that's when we started looking at differentiating ourselves and embarked on a transformation away from sportswear," Ho said.

The campaign seems to be working.

Eratat was invited by a shopping mall in Shanghai to open a store there, a move which may mark its entry into top tier Chinese cities if it takes on the offer, and see it rolling output it amongst bigger players like Japan's Uniqlo, a unit of Fast Retailing .

Eratat hopes that its change in strategy will provide a much needed boost to its earnings. Ho said he expected the firm's revenue to increase by up to 20 percent this year, bolstered by rising demand for trendy casual wear from China's growing middle class.

The company, which this year changed its accounting period to the calendar year from April-March, posted revenue of about 850 million yuan (\$124.8 million) in calendar 2009, Ho said.

By investing to create more awareness for its brand amongst Chinese consumers, Eratat will be able to sell its apparel and footwear at higher prices and improve its margins.

Ho said he hopes Eratat would have a gross profit margin (GPM) of 40 percent in about 3 years, up from about 27 percent currently.

He said he expected Eratat's GPM to rise to its early 2009 level later this year. At that time, the gross margin was slightly above 30 percent.

Eratat also aims to open more stores, which only sell its products and are typically larger in size, so as to give shoppers a wider range of options when they step into the stores, Ho said.

He added the firm will open three to four new flagship stores in second-tier cities in China, with a floor area of around 600 square meters by the end of this year.

Eratat's shares fell 5.4 percent to S\$0.175 on Thursday and have dropped 16.7 percent so far this year.

(Editing by Raju Gopalakrishnan)