



**ERATAT LIFESTYLE LIMITED**  
(Company Registration No: 200705552D)

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## **CLARIFICATION OF REPORT BY THOMSON REUTERS ON 2 SEPTEMBER 2010**

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The Board of Directors of Eratat Lifestyle Limited (the “Group” or “Eratat Group”) refers to the article – “*Eratat banks on fashionable Chinese for growth*” reported by Thomson Reuters on 2 September 2010 (as attached for reference).

The Board wishes to clarify that Eratat Group constantly creates awareness of Eratat Brand in the China market through effective advertising campaign, such as sponsoring “Eratat Judose Challenge Competition” via CCTV-5 which has nationwide coverage. As such, we believe that such campaigns have accelerated the awareness of Eratat Brand across China. It is also the Group’s ongoing strategy to strengthen its existing market territory, as well as exploring opportunities to penetrate into new territory in other provinces where our presence is not yet prominent. Eratat Group has presence in tier 2 and 3 cities in over 21 provinces, but has stronger presence in south-eastern provinces, such as Fujian, Guangdong, Guangxi, Hebei, Henan, Shanxi, Zhejiang etc. We aspire to penetrate into new territory subject to successful appointment of distributor in these new territories, which include Shanghai. Currently the negotiation is still in progress, and there is no guarantee that the negotiation will be successful.

Over the past three financial years that ended 31 March 2008, 2009 and 2010 respectively, the compounded annual growth rate (“CAGR”) of revenue was about 26%, while the revenue increased by about 58%, 72% and 16% over the last three financial years. With a book order of RMB500 million that is to be delivered from July to December 2010 and increased market awareness of Eratat Brand, the Group believes it is able to grow its revenue by 10-20% this year.

Since the Group successfully transformed itself into a casual lifestyle wear company, away from the intensely competitive sportswear segment, it has been able to raise its average selling price (“ASP”) since July 2009 (i.e. Autumn/Winter Season 2009). The ASP for footwear and apparel had increased by more than 18% and 50% respectively in FY2010, as compared to FY2009. Since July 2010, the Group has also increased its ASP, which is expected to improve the overall gross profit margin. The Group hopes to at least regain the overall gross margin of about 30% from hereon, which is what it used to achieve in FY2009. In the future, we hope to achieve what other well known brands which operates in China, who could achieve gross margin of more than 40%.

It has been the Group’s ongoing strategy to open larger sized specialty shops (ie at least 70 sqm) via its distributors, and also establishing flagship concept store in selected territory. We have opened a first flagship concept store in October 2009 in Dongguan, Guangdong Province, which was successful. This is a 2-storey concept store that sells Eratat Brand merchandise on the ground floor, and a recreation area for Eratat Brand members on the second floor. Following its success in attracting customers, distributors from other province proceeded to establish such concept store in their respective territory, and about three to four such stores are expected to start operations by end of this year. Moving forward, we anticipate that the number of larger size specialty shops to grow gradually, while smaller sized shop-in-shops and specialty counters, which have limited or no retail space to display and sell our apparel range of products, will be phased out.

The Board is aware that the Company has to clarify the report made by Thomson Reuters on 2 September 2010, and there is no unusual trading activities noted for the day.

By order of the Board

Lin Jiancheng (林建程)  
Executive Chairman and CEO  
**3 September 2010**

## **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)