



ERATAT LIFESTYLE LIMITED

(Company Registration No: 200705552D)

RESPONSE TO SGX QUERY ON ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2011

With reference to the announcement of the “*Results for the six months financial period ended 30 June 2011*” released on 3 August 2011 (the “**Results Announcement**”), we wish to provide additional information in response to the following queries raised by the Singapore Exchange Limited (“**SGX**”) on 8 August 2011 (Page references in this announcement are references to the relevant page in the Results Announcement).

SGX's queries :

1. ***It is stated that the increase in trade receivables by 27%, from RMB366.9 million as at 30 December 2010 to RMB464.6 million as at 30 June 2011, was due to distributors having longer credit terms. We note that the amount of RMB464.6 million is 89% of total revenue for the half year ended 30 June 2011. In this respect, please provide the following information:***

- a) ***What are the specific reasons for distributors requiring longer credit terms? What are the credit terms?***
- b) ***The directors' views on whether provision for doubtful debt is required and the basis for their views.***

As explained in item 2 on page 4 of the Results Announcement, the trade receivables had included VAT of 17% that were charged to distributors. Excluding the VAT, the trade receivables attributable to revenue as at 30 June 2011 amounted to RMB397.0 million, which was the revenue recorded from March to June 2011 (i.e. 4 months, or approximately 120 days).

- a) Since the beginning of 2010, we have started to encourage our key distributors to open more direct-owned specialty shops and strengthen their distribution network. We believe that more of such direct-owned specialty shops will enhance the quality of the Group's distribution network thereby generating healthy and sustainable revenue stream. (Please also refer to the past quarterly, half yearly and full year results announcements released on 2 February 2010, 26 May 2010, 27 July 2010, 1 November 2010, 25 February 2011 and 9 May 2011).

To support their expansion growth which would require high investment outlay from the distributors, we would support them by giving them longer credit terms from the usual 60-90 days to 90-120 days. We believe that this strategy is better than to provide subsidies, or discounts on products which would adversely affect our profit margins and may not be sustainable in the long run.

However, it should be noted that only good performing distributors who wish to embark on such expansion plan are entitled to longer credit terms. In other words, not all distributors who wish to embark on such expansion are permitted to do so, thus would not be given a longer credit terms.

- b) The Board of Directors (the “**Board**”) opined that currently no provision for doubtful debts is required because:
 - i) there are internal control process in place to monitor the collections of trade receivables, which include monthly reconciliation of trade receivables balances and diligent follow up of collection with customers. Remedial actions may also be deployed where necessary to recover debts, such as stop shipment or legal actions;

- ii) the trade receivables as at 30 June 2011 are still within the 120 days credit terms (please also refer to the trade receivables ageing analysis in item 2 on page 4 of the Results Announcement);
- iii) as of to-date, 100% of the 90-120 days old of RMB124.6 million has been collected; and
- iv) the Group did not have any bad debts for at least the last 5 years.

2. It is stated on page 4 of the results announcement that “In order to secure delivery of products, we are required to pay about 50-60% as trade deposits at the time of placing order with them as our orders are not sizeable”. If the orders are not sizeable, why is the amount of trade deposits, totalling RMB162.6 million, so significant?

We wish to clarify that the statement “.....at the time of placing with them as our orders are not sizeable” was in reference to the orders from the manufacturers’ perspective. To further elaborate, we currently have more than 50 apparel suppliers, each manufacturing for us different types of products such as shirts, pants, jeans, jackets, leather jackets etc. Relative to the output of these specialist manufacturers, our orders to each of them are not large. But in our perspective, the total trade deposits of RMB162.6 million collectively is significant.

To provide clarity to the above, the second paragraph of item 3 on page 4 of the Results Announcement should have read “Currently, the apparel products are outsourced to mid to large sized third party manufacturers..... at the time of placing order with them as our orders ~~are not sizeable~~ **may not be sizeable to the manufacturers.**”

By order of the Board

Lin Jiancheng (林建程)
Executive Chairman and CEO

11 August 2011