



ERATAT LIFESTYLE LIMITED
(Company Registration No: 200705552D)

**RESPONSE TO SGX QUERY ON ANNOUNCEMENT OF RESULTS
FOR THE NINE MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2011**

With reference to the announcement of the “Results for the nine months financial period ended 30 September 2011” released on 3 November 2011 (the “Results Announcement”), we wish to provide additional information in response to the following queries raised by the Singapore Exchange Limited (“SGX”) on 10 November 2011.

SGX's queries :

1. ***We note that inventories increased by approximately 60%, from RMB26.6 million as at 31 December 2010 to RMB42.6 million as at 30 September 2011. In respect of this, please provide the following information:***

- a. A breakdown of the major items contributing to the increase;***
b. Inventory turnover days for the current period as compared to the previous corresponding period and elaborate on the material variances, if any; and
c. Any risk of inventory obsolescence or diminution in value and basis for the views.

- a. The breakdown of inventory is as follows:

	As at 30.09.2011	As at 31.12.2010	Incl/(Dec)
	RMB Mil	RMB Mil	RMB Mil
Finished goods	24.6	15.7	9.0
Raw materials	10.6	8.8	1.8
Work in progress	7.4	2.1	5.3
	<u>42.6</u>	<u>26.6</u>	

- b. The inventory turnover days for the current period and the previous corresponding period are 15 days.
- c. There is no risk of inventory obsolescence or diminution in value because we produce footwear and purchase apparel from suppliers according to the confirmed orders received from customers, and these are delivered to them according to the pre-determined delivery schedule.

2. ***It is stated that since the beginning of 2010, the Company has started to encourage its key distributors to open more direct-owned specialty shops and strengthen their distribution network. In this respect, please provide details on the expansion carried out by these distributors and the impact on their outlets and sales.***

Since the beginning of 2010, the distributors began their expansion by seeking suitable locations to open new shops that they would directly own, instead of the usual appointment of third party sub-distributors to expand network in their distribution territory. These new locations have to be approved by the Group before the shops may be set up. Concurrently, the distributors also discontinued small-sized shops and specialty counters (which have limited or no retail space to display and sell apparel range of products), non performing shops and/or sub-distributors as part of the Group's efforts to strengthen distribution network in quality. Currently about 60% of the total shops are directly owned by the distributors, as compared to 30% before 2010. The Group's sales to these distributors have also increased by 48% during the current financial period under review as compared to the previous corresponding period, as follows:

Region	Province Presence	FY11Q3 RMB Mil	FY10Q3 RMB Mil	+ / - %
Northern	Inner Mongolia, Shanxi, Tianjin	161.7	116.3	39%
Eastern	Anhui, Fujian, Shandong, Zhejiang	295.5	168.5	75%
South-Central	Guangdong, Guangxi, Hainan, Henan, Hunan	330.1	248.0	33%
		<u>787.3</u>	<u>532.8</u>	48%
	Discontinued distributors	-	160.4	
		<u>787.3</u>	<u>693.2</u>	14%

3. ***It is stated that the Group decided to support the distributors to upgrade their older shops by providing them renovation subsidy. Please quantify the amounts extended for this and the controls put in place for such expenditure.***

Currently the quantum of subsidy is still being negotiated and computed, and the basis of computation is essentially based on the total floor area of actual shops that are to be upgraded. The computation and amount of subsidy will be verified and approved by the Group's management before confirmation for disbursement. The distributors are also required to sign an agreement with the Group on the subsidy amount, usage of subsidy and their commitment to carry out the renovation of the older shops. The Group will also be monitoring the progress and carry out site visits to ensure that the older shops are upgraded according to the agreement and given specifications.

4. ***It is further stated that the terms and quantum of subsidy are still being finalized and is expected to complete during the fourth quarter of 2011, and this will be offset against trade receivables. If the terms and quantum have not been finalized, how did the Company determine the amount to extend to these distributors and what are the obligations of these distributors with respect to the amounts extended to them by the Company to date?***

In view of the ongoing negotiation, it has been agreed that the credit days be temporarily extended from 91-120 days to 121-150 days. The distributors are expected to continue making payments, which they have done so, as evidenced that 100% of the 121-150 days receivables of RMB98.9 million have since been collected.

5. ***It is stated that no provision for doubtful debts is required because there are internal control process in place to monitor the collections of trade receivables. Please elaborate on the internal controls with respect to the Company's credit policy.***

With respect to the Group's credit policy, the internal controls in place include the following process:

- Credit terms extended to distributors are based on their past performance in sales, inventory management and repayment, as well as projected growth in the new season or year. The terms are reviewed and extended annually at the time of annual distributorship renewal.
- On a monthly basis, the repayment by distributors are being monitored and followed up diligently. Remedial actions may also be deployed where necessary to recover debts, such as stop shipment or legal actions (*Please also refer to explanation in item 1(b)(i) of the Company's announcement made on 11 August 2011*).

By order of the Board

Lin Jiancheng (林建程)

Executive Chairman and CEO

14 November 2011