



ERATAT LIFESTYLE LIMITED
(Company Registration No: 200705552D)

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- (A) **UPDATE ON GROUP'S FINANCIAL POSITION AND OPERATION**
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Reference is made to the Company's announcements dated 29 January 2014 and 25 February 2014 (the "**Prior Announcements**"). Capitalised terms used herein and not otherwise defined shall have the same meanings as ascribed to them in the Prior Announcements.

(A) **UPDATE ON GROUP'S FINANCIAL POSITION AND OPERATION**

(1) **Group's Cash Balances**

As set out in the Prior Announcements, the Company had previously contacted ABC Bank's Jinjiang Chendai Branch ("**Chendai Branch**") but was unable to obtain a satisfactory verification of the HMW Cash Balance as stated in the ABC Confirmation. In this regard, the Company has since approached ABC Bank's Fujian Branch as well as representatives of ABC Bank's Beijing HQ ("**ABC HQ**") to seek their assistance in verifying the Group's cash balances with Chendai Branch.

In this regard, the Company was informed by ABC HQ that it has conducted an internal investigation relating to the HMW Cash Balance and based on their record, the HMW Cash Balance amounted to only RMB73,321.63 as at 31 December 2013, instead of RMB577 million as previously indicated in the ABC Confirmation. In addition, HMW also had bank borrowings of RMB34 million as well as trade bills of RMB30 million as at 31 December 2013. This was contrary to the understanding of the Board as the management has not reported any bank borrowings previously and there were also no such indications in prior bank confirmations obtained by the Company's auditors.

If the abovementioned information provided by ABC Bank were true, there would appear to be significant discrepancies between the HMW Cash Balance informed by ABC Bank and that set out in the prior ABC bank statements and the ABC Confirmation recently.

(2) **Appointment Of Special Auditor**

Given the Company's current financial position, the Board is unable to raise any fund to pay for the appointment of special auditors to investigate into the financial affairs of the Group. The Board has also sought financial support of the Bondholder (including raising funds to investigate the discrepancies in the aforesaid ABC bank accounts and the subsequent recovery of the missing cash) but to no avail. In view of the aforesaid, the Board is unable to commence the special audit into the financial affairs of the Group.

(3) **Continued Suspension Of Group's Operations**

Due to the disruption to the Company's management, the Group's operations in China remain suspended to date and the staff of PRC subsidiaries have not returned to work since the end of the Chinese New Year holiday period.

While the Group's interim CEO Mr Ho has continued to reach out to Mr Lin and the Company's PRC management team to seek their cooperation, he only managed to secure control of the corporate seals of the Company's key subsidiaries, namely HMW, Quangang Hongli Shoes Co., Ltd (泉州市泉

港宏力鞋业有限公司) (“**Quangang Hongli**”), Jinjiang Wanshida Computer Embroidery Co., Ltd (晋江万事达电脑机绣有限公司) and Eratat (Fujian) Light Industry Development Co., Ltd (鳄莱特(福建)轻工发展有限公司), as well as the internet banking tokens of HMW and Quangang Hongli.

Further, he was unable to obtain the cooperation of PRC management to resume operations given the Group's current financial position. The former CEO of the Group Mr Lin had further informed the Board that it is impossible for the Group to operate under the current circumstances and all the management staff have also stopped responding to Mr Ho. In view of the above, it is unlikely that the Group's operations will resume in the near future, if at all.

(B) FILING REPORTS WITH THE POLICE AND REGULATORY AUTHORITIES IN CHINA AND SINGAPORE

In view of the potentially serious implications of the abovementioned discrepancies in the HMW Cash Balance and the inconsistencies in the ABC bank statements, the Company has lodged a report relating to the same with *inter alia* the China Banking Regulatory Commission and the Public Security Bureau in Fujian and Quanzhou, PRC, as well as the Commercial Affairs Division of the Singapore Police Force, to seek their assistance in investigating the aforesaid matters. The Board will keep shareholders posted of the outcome of these investigations.

(C) RESIGNATION OF INTERIM CEO AND CFO

Since the Group's accounting issues first arose, the interim CEO and CFO Mr Ho has been working diligently with the Board to investigate the accounting discrepancies and attempt to resume the Group's operations, despite him not being paid his salaries for the past few months. In this regard, the Board regrets to inform shareholders that Mr Ho has decided to resign from his positions as interim CEO and CFO of the Company. His last day of service in the Company will be on 31 May 2014.

Mr Ho has been with the Company since 2007 and took over as interim CEO of the Company when Mr Lin was suspended from his roles within the Group. The Board would like to thank Mr Ho for his efforts during this difficult period and wishes him all the best in his future endeavours.

(D) OUTLOOK

Going forward, the Company will seek the help of the authorities to investigate the accounting discrepancies, including the HMW Cash Balance and to hold those involved responsible.

The Company will also explore possible actions against ABC for the discrepancies in the bank statements and the unaccounted funds. However, shareholders should be aware that such actions will be dependent on the Company obtaining the necessary funds to finance such activities and there is also no assurance that the Company will be successful in the aforesaid actions.

In view of the current circumstances of the Group's accounts, the Group is also unlikely to present its audited financial accounts to its shareholders and hold its AGM by the current deadline of 30 June 2014.

The Board will update shareholders on any material developments in relation to the aforesaid.

BY ORDER OF THE BOARD

Lim Yeow Hua
Independent Director

30 May 2014