

Ulferts International Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is a leading retailer of high quality home furniture mainly imported from Europe, and the shares of the Company were newly listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in January 2018.

Established for over 40 years, the Group operated 16 points-of-sale (“POS”) in Hong Kong, under three retail lines – “*Ulferts*”, “*Dormire*” and “*Eurodecor*”, as well as online shopping platforms as at 31 March 2018. Dedicated to supplying high quality, stylish and affordable furniture for transforming into ideal homes, “*Ulferts*” and “*Eurodecor*” offered a wide variety of contemporary style furniture products targeting middle to high income groups. “*Dormire*” on the other hand offered mattresses, pillows, sofas and other ancillary items under the Group’s self-owned brand “Ulfenbo” targeting at the mass market. Such products were distributed through other retail networks such as department store counters and roadshows and also through wholesaling to about 260 dealers.

MARKET REVIEW

With strong sales performances in the primary home market and a record breaking run of surging secondary home prices, the volume of residential property transactions remained active during the year ended 31 March 2018 (the “Year”). Supported by an organic expansion of local household formation and continuous arrivals of family-base immigrants, the Hong Kong property market continued to grow.

Thanks to a lower unemployment rate, growing middle class, and a stronger sense of optimism regarding the local economy, local consumer confidence started to surge. Additionally, the positive wealth effect resulting from the stock market boom and an ongoing rise in property prices, in turn encouraged local residents to increase investments in new apartments or renovate their existing flats. With a gradual increase in household income and enhancement of living standards, residents have greater awareness of product quality, hence demand for high quality imported home furniture has continued to rise.

FINANCIAL REVIEW

Overall Review

In line with the store network expansion and increasing market demand for quality home furniture, the Group’s total revenue registered growth of 15.3% to HK\$258.6 million (2017: HK\$224.3 million) during the Year. Revenue of the retail segment increased by 15.1% to HK\$239.3 million (2017: HK\$207.9 million) and remained a key revenue contributor, accounting for 92.6% (2017: 92.6%) of the Group’s total revenue.

Gross profit grew by 12.8% to HK\$163.9 million (2017: HK\$145.3 million). Due to an increase of purchase price of the furniture products amid the appreciation of Euro, the gross profit margin slightly decreased to 63.4% (2017: 64.8%). The Group's net profit for the year was HK\$8.5 million (2017: HK\$30.1 million). Such decline was primarily due to the recognition of the one-off listing expenses, as well as the increase in rental expense and overhead arising from new POS and the softened performance of gross profit margin. The listing expenses mainly comprised of legal and other professional fees in connection with the Company's initial public offering. The board of directors (the "Board" or "Directors") of the Company did not recommend the payment of a final dividend for the Year.

Capital Structure, Liquidity and Financial Resources

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 29 January 2018 and there has been no change in share capital structure of the Company since then. As at 31 March 2018, the Company had 800 million shares in issue.

Cash and cash equivalents of the Group as at 31 March 2018 amounted to HK\$83.4 million (2017: HK\$39.8 million), which were mainly denominated in Hong Kong dollars. As at 31 March 2018, the bank borrowings of the Group was HK\$19.8 million (2017: Nil), and hence its gearing ratio (calculated on the basis of the total borrowings over total equity) was 17.1% (2017: Nil). The Group also had available unutilised banking facilities of approximately HK\$34.2 million as at 31 March 2018. The adequate liquidity and unutilised banking facilities enable the Group to retain high flexibility for future development.

As at 31 March 2018, the Group's current assets and current liabilities were approximately HK\$146.0 million (2017: HK\$90.8 million) and HK\$56.7 million (2017: HK\$34.9 million), respectively. As at 31 March 2018, current ratio and quick ratio of the Group were 2.6 (2017: 2.6) and 1.8 (2017: 1.7), respectively.

In view of the Group's financial position as at 31 March 2018, the Board considered that the Group had sufficient working capital for its operations and future development plans.

Use of Proceeds

The final offer price for the listing was HK\$0.56 per share, and the actual net proceeds from the listing were approximately HK\$92.6 million. This amount was higher than the estimated net proceeds of approximately HK\$81.3 million, which was based on a mid-point offer price of HK\$0.50 per share, as disclosed in the prospectus dated 16

January 2018. In light of the difference between the actual and estimated amount of the net proceeds, the Group has adjusted the use of proceeds as shown in the prospectus:

	*Adjusted use of net proceeds HK\$ million	Actual use of net proceeds up to 31 March 2018 HK\$ million
Capital expenditure, rental deposits and overhead expenses for opening of “ <i>at • home</i> ” retail stores	34.2	-
Strengthening the Group’s product portfolio	24.2	0.8
Enhance “ <i>Ulfenbo</i> ” sales channels and brand awareness	10.3	-
Capital expenditure, rental deposits and overhead expenses for opening of an “ <i>Ulferts</i> ” retail store	9.1	
Upgrade information technology	5.7	
General working capital	9.1	9.1
Total	92.6	9.9

**The breakdown of the planned use of net proceeds has been adjusted based on the actual total net proceeds of HK\$92.6 million and in the same proportion allocated to each of its usage as disclosed in the prospectus.*

BUSINESS REVIEW

Retail Business

Effective Market Segmentation

A clearly identifiable market segmentation analysis is essential for enabling the Group to successfully identify targeted groups of consumers in order to define product range and effectively implement branding and marketing strategies.

“*Ulferts*”, as the Group’s core retail label, is dedicated to providing high quality and stylish furniture for its customers to transform into ideal homes. To offer a wide variety of contemporary style furniture products targeting middle to high income groups, the Group operates “*Ulferts*” showrooms across Hong Kong, together with a “*Eurodecor*” store in Happy Valley.

“*Ulfenbo*” products focus on the mass market need for furniture enabling good quality sleep, at affordable prices. To facilitate the retailing of “*Ulfenbo*” products, the Group operates “*Dormire*” specialty stores which are typically small in scale, and are designed with a casual and relaxing environment, to highlight smart living style.

Comprehensive Retail Sales Channels

As at 31 March 2018, the Group had 16 POS (2017: 12) in Hong Kong. The number of outlets in each retail line are as follows:

Retail Line	Number of POS
<i>“Ulferts”</i>	6
<i>“Dormire”</i> and department store counters	9
<i>“Eurodecor”</i>	1
Total	16

“Ulferts” showrooms are strategically located in either upscale residential areas or major shopping areas, targeting middle to high income groups. Meanwhile, the *“Eurodecor”* store is located in Happy Valley, a traditional luxury residential area clustering with high-end furniture shops. With its solid presence in these mature locations with resilient foot traffic, the Group enjoys more visitations and a high brand reputation.

The Group continues to strengthen its market presence through expanding its retail network. In July 2017, an *“Ulferts”* showroom was opened in Telford Plaza II in Kowloon East, which is an emerging shopping area and surrounded by large-scale residential developments in the vicinity. This allows the Group to reach quality end-users of furniture in Kowloon. In addition, three *“Dormire”* specialty stores (one in Tsuen Wan and two in Tseung Kwan O) and one department store counter in Sham Shui Po were opened during the Year. The new POS have yielded a positive impact on the Group’s sales performance.

Excellent Customers Shopping Experience

“Ulferts” showrooms are spacious, with a stylish and cozy environment, enabling the Group to display a wide spectrum of products and allow customers to touch and feel the actual furniture, its colour tones and the texture, to maximise the customers’ shopping experience. The ambience, setting and placement of furniture within the distinctive display zones have all been tailor-designed by a dedicated visual merchandising team to impart harmonious, home-like comfort. The salesforce is well-trained and offers customers advice on their purchasing needs. In recognition of its service excellence, the Group was awarded the “Service Retailer of the Year 2017” in Furniture & Home Accessories Category, in the Mystery Shoppers Programme organised by the Hong Kong Retail Management Association (“HKRMA”). In addition, the Group earned several accolades in the “2017 Service & Courtesy Award” of the HKRMA, namely the

“Best Team Performance Award - Silver Award” (in retail industry), the “Winner of Supervisory Level” (in Furniture & Home Accessories Category) and the “Winner of Junior Frontline Level” (in Furniture & Home Accessories Category).

Diversified Marketing Strategies

The Group believes that brand recognition is crucial for driving long-term growth and success. To enhance brand awareness, the Group conducted a range of marketing and promotional campaigns spanning TV commercials, print advertisements, outdoor advertising, social media engagements on regular basis. It also launched promotional campaigns such as seasonal sale, annual sale and stock clearance sale, as well as joint promotions with banks and reward programme such as Asia Miles.

In April 2017, the Group supported The Chinese Sports & Recreations Association, a non-profit-making organisation in Hong Kong that advocates sports programs for children, by sponsoring its annual event, “Super Kids Championship and Streetathons” under the “*Ulfenbo*” brand. The sponsorship gave the Group an opportunity to establish closer community ties, and enhanced the “*Ulfenbo*” brand’s association with a healthy lifestyle.

To commemorate the opening of Telford showroom, Mr. Hacken Lee, a famous singer in Greater China, was invited to officiate the grand opening together with the Group’s management and other honourable guests. The event has been widely reported in the media, which helps to further enhance Ulferts’ brand awareness as well as propagate the opening of this new showroom.

Wholesale Business

The Group also operates wholesale business of mattresses, sofas and sofas under its self-owned label “*Ulfenbo*” through about 260 dealers in Hong Kong and Macau. Based on its long establishment and quality products, the “*Ulfenbo*” brand has been recognised by the “Hong Kong Top Brand Mark” for four consecutive years since 2014, under the Hong Kong Top Brand Scheme organised by the Chinese Manufacturers Association of Hong Kong and Hong Kong Brand Development Council.

During the Year, the Group appointed Ms. Kelly Cheung, a famous artiste and an internet sensation, as the brand ambassador for “*Ulfenbo*” products. Marketing materials featuring her were produced since September 2017, presenting a fresh image for the “*Ulfenbo*” brand.

Special Projects

Complementing its retail and wholesale business, the Group has a special projects division, which undertakes furniture-related projects primarily for corporate customers. The division provides service ranging from planning and design, through procuring custom-made furniture to final installation for corporate customers, as well as consultation and liaison services with furniture manufacturers. During the Year, the Group undertook a variety of furniture-related projects, mainly for offices, cinemas, hotels and tertiary institutions.

PROSPECTS

With solid economic fundamentals and a positive wealth effect, it is expected that demand in the local residential property market, especially from investors and young couples looking for small flats, will continue to grow. Coupled with the positive consumption sentiment and diversified market demand for quality furniture products, the outlook for the home furniture retail business is promising.

The year ahead will continue to be a year of expansion and foundation building of the Group. The Group will further expand its POS network to capture the expected rising demand for furniture in the coming years.

The trend towards smaller home sizes will boost the demand for small and compact furniture for new families in Hong Kong. In order to capture the market opportunity, the Group intends to diversify into furniture products that better cater for small residential units or with special features and functions to serve the more diverse needs of modern families in small apartments.

The Group plans to launch a new retail line of stores under “*at • home*” gearing towards mid-range segment, and targeting particularly young couples. At least one “at • home” store is scheduled to open in the second half of 2018. Meanwhile, the Group continues to expand its retail footprint by opening one “*Ulferts Signature*” showroom, a premium line of “*Ulferts*”, and at least one “*Dormire*” specialty store, in the second half of 2018.

Following the successful fund raising through the Company’s initial public offering during the Year, the Group will pursue a proactive expansion strategy, by increasing its POS and exploring value-enhancing opportunities while optimising the overall capital structure, in order to seize opportunities and enhance its competitiveness in the marketplace.