

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. The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “IPO”) since January 2018.

The Group has been established for over 40 years, and takes pride in providing superior quality stylish furniture in Hong Kong. As at 31 March 2019, the Group operated 20 points-of-sale (“POS”) in Hong Kong, including 18 stores under several retail lines – “*Ulferts Signature*”, “*Ulferts*”, “*at • home*” and “*Dormire*”, and 2 department store counters. “*Ulferts*” is dedicated to transforming living spaces into ideal homes, and offers a wide variety of contemporary style furniture products targeting middle to high income groups. “*at • home*”, a recently introduced retail line, offers quality compact furniture to suit small living spaces for modern families. “*Dormire*”, on the other hand, offers mattresses, pillows, sofas, and other ancillary items under the Group’s self-owned brand “*Ulfenbo*”, targeting the mass market. “*Ulfenbo*” products are also distributed through other retail networks such as roadshows, and wholesaling to over 200 dealers. Additionally, several online shopping platforms maximise market coverage.

MARKET REVIEW

During the year ended 31 March 2019 (“Year”), the Group has experienced several market challenges. Local consumption market sentiment has been weakening as a result of stock market volatility following the outbreak of the Sino-US trade war. The growth of residential property prices has even been softening due to the rising interest rate as well as the less optimistic outlook for the Chinese economy arising from trade tensions. The downturns in both stock and property markets affected the formerly positive market sentiment, which led to a decrease in consumer spending. Meanwhile, the stagnant residential property market has also affected the overall demand for home furniture.

Recently, the already competitive home furniture market has become more sophisticated, with greater awareness of product quality. With the organic formation of young couples and establishment of young-and-single households, consumer preferences have changed more rapidly. As an expression of personal taste and considering more aesthetic elements in consumer lifestyles, market demand shifted towards high quality, more compact furniture with modern, chic styles.

FINANCIAL REVIEW

Overall Review

Due to weakening consumption market sentiment, the Group's total revenue inevitably decreased to HK\$243.0 million (2018: HK\$258.6 million) during the Year. Revenue of the retail segment amounted to HK\$226.8 (2018: HK\$239.3 million) and remained a key revenue contributor, accounting for 93.3% (2018: 92.6%) of the Group's revenue. Gross profit decreased to HK\$152.3 million (2018: HK\$163.9 million). Gross profit margin was 62.7% (2018: 63.4%).

The earnings before interest expense, tax, depreciation and amortisation ("BITDA") was HK\$6.0 million (2018: HK\$21.3 million) during the Year, while loss BITDA of HK\$0.8 million was recorded in the first half of the Year. This indicated a turnaround at the operating level in the second half of the Year. The net loss for the Year was narrower at HK\$4.0 million (2018: net profit of HK\$8.5 million), compared to the net loss amounting to HK\$7.2 million for the first half of the Year. This net loss was primarily due to the decline in revenue, and an increase in the rental costs and operating expenses for the new stores during the Year.

Capital Structure, Liquidity and Financial Resources

There was no change in the capital structure during the Year. Cash and cash equivalents of the Group as at 31 March 2019 amounted to HK\$59.5 million (31 March 2018: HK\$83.4 million), which were mainly denominated in Hong Kong dollars. As at 31 March 2019, the bank borrowings of the Group decreased significantly to HK\$4.0 million (31 March 2018: HK\$19.8 million), and hence its gearing ratio (calculated on the basis of the total borrowings over total equity) reduced to 3.6% (31 March 2018: 17.1%). The Group has available un-utilised banking facilities of approximately HK\$79.3 million. The strong liquidity position and considerable un-utilised banking facilities enable the Group to retain high flexibility for future development.

As at 31 March 2019, the Group's current assets and current liabilities were approximately HK\$126.2 million (31 March 2018: HK\$146.0 million) and HK\$56.0 million (31 March 2018: HK\$56.7 million), respectively. Current ratio and quick ratio of the Group were 2.3 (31 March 2018: 2.6) and 1.4 (31 March 2018: 1.8), respectively.

In view of the Group's financial position as at 31 March 2019, the Board considered that the Group had sufficient working capital for its operations and future development plans.

Use of Proceeds

During the IPO in January 2018, the net proceeds from the listing were approximately HK\$92.6 million. An analysis of the utilisation of the net proceeds up to 31 March 2019 is set out below:

	Allocation of use of net proceeds (HK\$ million)	Actual use of net proceeds up to 31 March 2019 (HK\$ million)
Capital expenditure, rental deposits and overhead expenses for opening of “ <i>at · home</i> ” retail stores	34.2	20.8
Strengthening the Group’s product portfolio	24.2	13.7
Enhancing “ <i>Ulfenbo</i> ” sales channels and brand awareness	10.3	3.2
Capital expenditure and rental deposits for opening one more “ <i>Ulferts</i> ” retail store	9.1	8.5
Upgrading information technology	5.7	-
General working capital	9.1	9.1
Total	92.6	55.3

BUSINESS REVIEW

Retail Business

- ***Effective Market Segmentation***

With a clear understanding of market segmentation, the Group defines and identifies target consumer profiles in order to develop product and marketing strategies to reach out to their specific preferences.

“*Ulferts*”, as the Group’s core retail label, is dedicated to providing high quality, stylish and luxury furniture, enabling its customers to create their 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. During the Year, “*Ulferts Signature*”, a premium line of “*Ulferts*”, was successfully launched to the market, offering high-end branded furniture products and luxury European tailor-made furniture. It targets up-market customers seeking a superior lifestyle.

During the Year, the Group launched a new retail line, “*at • home*”, offering quality, practical and compact furniture. The new line targets the mid-range segment, and is geared towards the needs of young couples and small families in Hong Kong.

“*Ulfenbo*” products focus on mass market consumers who demand quality and affordable mattresses, pillows and other ancillary items to enhance their sleep experience. To facilitate the retailing of “*Ulfenbo*” products, the Group operates “*Dormire*” specialty stores which are typically small-scale, and are designed with a casual and relaxing environment, to highlight smart living style.

- ***Diverse Product Portfolio***

The Group offers a wide variety of furniture products – ranging from leather sofas, cabinets, dining tables and chairs, through wardrobes, coffee tables and sideboards, to beds, which are imported from European and Asian countries. The Group currently carries more than 50 furniture brands in “*Ulferts Signature*” and “*Ulferts*” showrooms, as well as “*at • home*” stores, including international brands such as Himolla, Gamma, Nicolettihome, Kristalia and Domicil, with which the Group has built long-standing relationship. “*at • home*” particularly offers various compact furniture products with special features and functions to suit the small living spaces in Hong Kong, as well as chic Danish home accessories.

The Group also offers mattresses, pillows, sofas, sofas, adjustable beds, as well as other ancillary items such as mattress protectors and mattress toppers under its self-owned label “*Ulfenbo*”. The Group provides different models of mattresses, in various sizes with varying supports, to meet diverse customer needs.

- ***Comprehensive Retail Sales Channel***

As at 31 March 2019, the Group had 20 POS (31 March 2018: 16) in Hong Kong. The number of outlets in each retail line is as follows:

Retail Line	Number of POS
“ <i>Ulferts Signature</i> ”	1
“ <i>Ulferts</i> ”	6
“ <i>at • home</i> ”	3
“ <i>Dormire</i> ” and department store counters	10
Total	20

“*Ulferts*” showrooms are strategically located in either upscale residential areas or major shopping areas, targeting middle to high income groups. With its solid presence in these mature locations with resilient foot traffic, the Group enjoys substantial visitations and a high brand reputation. During the Year, “*Ulferts Signature*”, a 3-storey store with gross floor area of approximately 21,700 square feet, was newly opened in Hung Hom. It is the Group’s largest flagship store, and features more luxurious lines of furniture and masterpieces with sophisticated finishing and excellent craftsmanship. Some premium brands including Cornelio Cappellini and Crystal Stone are available at “*Ulferts Signature*”.

During the Year, a new retail line – “*at • home*” – was established, and its first three stores were strategically opened in Discovery Park in Tsuen Wan, HomeSquare in Shatin and Lee Garden Three in Causeway Bay, and have been well-received by local residents and shoppers. During the Year, two “*Dormire*” specialty stores were opened, one in Wong Tai Sin and another in Ho Man Tin, to further strengthen its market presence.

- ***Excellent Customers Shopping Experience***

“*Ulferts Signature*” and “*Ulferts*” showrooms are spacious, with a stylish and cozy environment, enabling the Group to display a wide spectrum of products for customers to touch and feel the actual furniture, its colour tones and the texture, to maximise 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 one of the “Quarterly Service Leaders” in Furniture & Home Accessories Category, in the 2018 Mystery Shoppers Programme organised by the Hong Kong Retail Management Association (“HKRMA”). In addition, a staff of the Group earned “Excellent Service Star” in the 2018 Service & Courtesy Award of the HKRMA.

- ***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 and reward programmes with banks and other renowned institutions such as Asia Miles.

Wholesale Business

The Group also operates a wholesale business spanning mattresses, pillows, sofas and sofas under its self-owned label “*Ulfenbo*”, through over 200 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 five 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.

Special Projects

Complementing its retail and wholesale business, the Group has a special projects division, which undertakes furniture-related projects primarily for corporate customers such as offices, cinemas, hotels and tertiary institutions. The division provides services 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.

PROSPECTS

The Group considers the business environment will remain challenging in the near-term. The impact of trade tensions and local social issues on the economy and consumer sentiment is difficult to assess. On the other hand, with the continuous upward trend of GDP in China, the possible continuation of low interest rate environment and the resilient local property demand, the Group is cautiously optimistic regarding the long-term outlook. The Group remains committed to enhancing operational efficiencies through prudent control of inventories and expenses, as well as honing its competitive edge. Meanwhile, the Group continues seeking potential locations for expanding its retail network.

In response to the changing market trends, the Group will continue enhancing the market differentiation of its proprietary brands through introducing innovative products, and striving to develop various sales channels. A corner focusing on Italian tailor-made furniture has been established inside “*Ulferts Signature*”, to seize the opportunities arising from demand for ultra-luxury, custom-made furniture; more chic Danish furniture and home accessories are available in “*at • home*”, to meet the demand for fusing design and function in small living spaces. The Group foresees that small apartments will be the focus of the coming supply of residential units. With customers’ positive feedback towards “*at • home*”, the Group plans to further develop its offline and online network. With such strategic directions, the Group can solidify its market presence by expanding in the high-range and mid-range sectors, and maintain sustainable growth in the long-term.