

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 first listed (the “IPO”) on the Main Board of The Stock Exchange of Hong Kong Limited 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 2020, the Group operated 21 points-of-sale (“POS”) in Hong Kong, including 18 stores under several retail lines – “*Ulferts Signature*”, “*Ulferts*”, “*at • home*” and “*Dormire*”, together with 2 department store counters and 1 pop-up store under “*Ulfenbo*”. “*Ulferts*” is dedicated to transforming living spaces into ideal homes, and offers a wide variety of contemporary style furniture products targeting middle to high-mid income groups. “*at • home*” offers quality compact furniture to suit small living spaces for modern families. “*Dormire*”, on the other hand, offers mattresses, pillows, sofas, sofas and other ancillary items under the Group’s self-owned brand “*Ulfenbo*”, targeting the mass market. “*Ulfenbo*” products are also distributed through its retail networks including department store counters, pop-up stores and roadshows, and wholesaling to over 200 dealers. Additionally, there are several online shopping platforms which maximise market coverage.

MARKET REVIEW

The local retail market experienced unprecedented challenges during the year ended 31 March 2020 (the “Year”). The ongoing Sino-US trade dispute and local social issues unquestionably impacted economic development and consumer sentiment in Hong Kong. Unemployment rate continued to climb starting from the fourth quarter of 2019. The market landscape has further deteriorated since late January 2020 as the outbreak of coronavirus disease (COVID-19; the “Pandemic”) continued to impact on operations across business segments, further dampened consumer confidence, affected the store traffic and disrupted the supply chain. Fears of a global economic recession increased, as a result of the public health crisis. New residential property sales launch slowed down in the first quarter of 2020, leading to a decrease in the number of residential property sales transactions; in addition, people tend to stay home amid the Pandemic, thereby weakening the market demand for home furniture.

FINANCIAL REVIEW

Overall Review

Against the backdrop of the down cycle of retail market, the Group’s total revenue inevitably decreased by 9.9% to HK\$218.9 million (2019: HK\$243.0 million) during the Year. Gross profit decreased to HK\$134.4 million (2019: HK\$152.3 million). Gross profit margin slightly adjusted to 61.4% (2019: 62.7%).

Revenue from the retail segment amounted to HK\$198.6 million (2019: HK\$226.8 million), accounting for 90.7% (2019: 93.3%) of the Group's total revenue. Among the retail revenue, aggregate sales revenue of “*Ulferts*” and “*Ulferts Signature*” amounted to HK\$153.7 million (2019: HK\$187.2 million), and remained the key revenue contributor, accounting for 77.4% (2019: 82.5%) of total retail revenue. As some of the “*at • home*” stores commenced operation in the second half of the previous financial year only, and 1 store was newly opened during the Year, the sales revenue of “*at • home*” increased significantly by 225.7% to HK\$24.1 million (2019: HK\$7.4 million), accounting for 12.1% (2019: 3.3%) of total retail revenue.

Despite the retail slump, the Group managed to maintain a positive earnings before interest, taxes, depreciation and amortisation during the Year. The net loss during the first half of the Year was HK\$10.3 million while the net loss for the Year was HK\$11.6 million (2019: net loss of HK\$4.0 million). Due to the implementation of aggressive and effective cost saving measures coupled with rationalisation of the retail network, the loss situation during the second half of the Year was in more controllable manner.

Capital Structure, Liquidity and Financial Resources

There was no change in the capital structure during the Year. The Group strived for better working capital management in light of the challenging economic climate. As at 31 March 2020, the Group's inventory notably decreased to HK\$36.4 million (31 March 2019: HK\$46.3 million), reflecting its effective inventory management control and stock replenishment policy. Meanwhile, cash and cash equivalents of the Group increased to HK\$63.7 million (31 March 2019: HK\$59.5 million), which were mainly denominated in Hong Kong dollars. As at 31 March 2020, bank borrowings of the Group was nil due to repayment of all bank borrowings during the Year (31 March 2019: HK\$4.0 million), hence its gearing ratio was zero (31 March 2019: 3.6%). The Group has available banking facilities of approximately HK\$87.1 million. The cash position and banking facilities available enable the Group to retain high flexibility and endurance to cater for future development and market uncertainty.

As at 31 March 2020, the Group's current assets and current liabilities were approximately HK\$118.0 million (31 March 2019: HK\$126.2 million) and HK\$84.4 million (31 March 2019: HK\$56.0 million), respectively. Current ratio and quick ratio of the Group were 1.4 (31 March 2019: 2.3) and 1.0 (31 March 2019: 1.4), respectively.

In view of the Group's financial position as at 31 March 2020, the Board considered that the Group had sufficient working capital for its operations and future development plans against market challenges.

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 2020 is set out below:

	Allocation of use of net proceeds (HK\$ million)	Actual use of net proceeds up to 31 March 2020 (HK\$ million)
Capital expenditure, rental deposits and overhead expenses for opening of “ <i>at • home</i> ” retail stores	34.2	34.2
Strengthening the Group’s product portfolio	24.2	24.2
Enhancing “ <i>Ulfenbo</i> ” sales channels and brand awareness	10.3	10.3
Capital expenditure and rental deposits for opening of “ <i>Ulferts</i> ” retail store	9.1	8.5
Upgrading information technology	5.7	0.3
General working capital	9.1	9.1
Total	92.6	86.6

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*”, 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-mid income groups, the Group operates “*Ulferts*” showrooms across Hong Kong. “*Ulferts Signature*” offers high-end branded furniture products and luxury European tailor-made furniture. It targets up-market customers seeking a superior lifestyle.

Another retail line, “*at • home*”, offers quality, stylish and compact furniture. It targets the mid-range segment and is geared towards the needs of young couples and small families.

“*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. “*Ulfenbo*” products are also distributed at department store counters, popup stores and roadshows for enhancing the market reach.

▪ **Diverse Product Portfolio**

The Group offers a wide variety of furniture products – ranging from leather and fabric 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, Malerba, Gamma, Cornelio Cappellini, Kristalia, Tonelli 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 local small living spaces, as well as chic Danish home accessories.

The Group also offers mattresses, pillows, sofas, sofabeds, beds, as well as other ancillary items 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 2020, the Group had 21 POS (31 March 2019: 20) in Hong Kong. The number of POS in each retail line is as follows:

Retail Line	Number of POS
“ <i>Ulferts Signature</i> ”	1
“ <i>Ulferts</i> ”	5
“ <i>at • home</i> ”	4
“ <i>Dormire</i> ”, and “ <i>Ulfenbo</i> ” department store counters and pop-up store	11
Total	21

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

“*at • home*” stores are located in upscale shopping malls, and there has been growing awareness of the brand among residents and consumers. Meanwhile, “*Dormire*” specialty stores and “*Ulfenbo*” department store counters, pop-up stores and roadshows are situated in residential areas, to capitalise on the market potential. During the Year, 1 “*at • home*” store, 1 “*Dormire*” specialty store and 1 “*Ulfenbo*” pop-up store were opened in Kowloon Bay, Tin Shui Wai and Tsuen Wan respectively, to further expand market coverage in Kowloon and the New Territories.

- **Excellent Customers Shopping Experience**

“*Ulferts Signature*” and “*Ulferts*” showrooms are spacious, with a stylish and elegant environment, enabling the Group to display a wide spectrum of products for customers to touch and feel and 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 salespersons are well-trained and offer customers advice catering for their personal needs. In recognition of its service excellence, the Group was awarded the “2019 Service Retailers of the Year – Furniture & House Accessories Category” and the “Quality Service Leader Seasonal Award – Furniture & Home Accessories Category” (formerly known as “Quarterly Service Leader”) during April to June, July to September and October to December 2019, in the Quality Service Programme (formerly known as “Mystery Shoppers Programme”) organised by the Hong Kong Retail Management Association.

▪ **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 social media engagements, print advertisements, TV commercials, outdoor billboards and advertising on regular basis as well as pop-up exhibitions at suitable venues. It also launched promotional campaigns such as seasonal sale, annual sale and stock clearance sale, as well as joint promotions with banks and other financial institutions and reward programmes such as Asia Miles.

Wholesale Business

The Group also operates a wholesale business spanning mattresses, 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 six 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, showflats 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 Pandemic and ongoing Sino-US trade war will continue casting shadows on the growth of the global economy. All the recent economic statistics have revealed that the local economy has been moving downward. As the economic outlook and employment prospects are uncertain, home buyers and investors are likely to delay the purchase of properties and property developers tend to slow down the launch of new properties, which may impair the market demand for home furniture.

Riding on its comprehensive product portfolio with a well-defined market segmentation, the Group will strive to increase the sales revenue by adjusting the product coverage and strengthening the promotional efforts. The Group will also continue to enhance its sales network and strengthen its market presence. Meanwhile, as some consumers refrained from making physical shop visits due to public health concerns, the Group will further explore online business by expanding social media engagements and enhancing the online sales platform.

Overall, the local market is adopting a wait-and-see attitude. The Group will closely monitor market conditions, and take all practical measures to cope with the challenges ahead, including the rationalisation of retail coverage, implementation of working capital management and cost-control measures. With a history of over 40 years in Hong Kong, the Group will endeavour to weather the storm in the face of difficult times along with Hong Kong.