



# 福壽園

FU SHOU YUAN

Fu Shou Yuan International Group Limited

福壽園國際集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

Stock code : 01448

# 2014

INTERIM REPORT



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Bai Xiaojiang (*Chairman*)

Mr. Tan Leon Li-an (*Vice-Chairman*)

Mr. Wang Jisheng (*General Manager*)

### Non-executive Directors

Mr. Lin Hung Ming (also known as Lin Hon Min)

Mr. Lu Hesheng

Mr. Huang James Chih-Cheng

### Independent Non-executive Directors

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

Ms. Wu Jianwei

## AUDIT COMMITTEE

Mr. Ho Man (*Chairman*)

Mr. Huang James Chih-Cheng

Mr. Luo Zhuping

## NOMINATION COMMITTEE

Mr. Bai Xiaojiang (*Chairman*)

Mr. Luo Zhuping

Mr. Chen Qunlin

## REMUNERATION COMMITTEE

Mr. Luo Zhuping (*Chairman*)

Mr. Tan Leon Li-an

Mr. Chen Qunlin

## COMPLIANCE COMMITTEE

Ms. Wu Jianwei (*Chairman*)

Mr. Luo Zhuping

Mr. Ho Man

Mr. Chen Qunlin

## JOINT COMPANY SECRETARIES

Mr. Zhao Yu

Ms. Wong Wai Ling

## AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang

Mr. Zhao Yu

## REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350

Grand Cayman KY1-1108

Cayman Islands

## HEADQUARTERS

Room 1306

No. 88 Cao Xi Road North

Shanghai

China 200030

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 709, 7/F

K. Wah Centre

191 Java Road

North Point

Hong Kong

# CORPORATE INFORMATION

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Appleby Trust (Cayman) Ltd.  
Clifton House  
75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## **COMPLIANCE ADVISOR**

Shenyin Wanguo Capital (H.K.) Limited  
Level 19  
28 Hennessy Road  
Hong Kong

## **PRINCIPAL BANKERS**

Citibank, N.A.  
Shanghai Pudong Development Bank  
Shanghai Rural Commercial Bank  
The Bank of East Asia Limited

## **AUDITOR**

Deloitte Touche Tomatsu

## **STOCK CODE**

1448

## **WEBSITE**

<http://www.fsygroup.com>

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I hereby present the results of the Company and its subsidiaries for the six months ended June 30, 2014.

Since the Shares of the Company were listed on the Stock Exchange on December 19 last year, the Company has actively pursued the plan promised in the initial public offering. During the Period Under Review, the Company's revenue amounted to RMB410.1 million, an increase of 33.7% over the corresponding period in 2013 (corresponding period in 2013: RMB306.7 million). The impressive performance of the Group's overall revenue for the first half of the year was primarily attributable to the organic growth of key business and enhanced internal marketing system of the Group. During the Period Under Review, the gross margin of the Group maintained at 79.6% (corresponding period in 2013: 80.4%). For the first six months of 2014, the Group realized profit and total comprehensive income attributable to shareholders of the Company of RMB128.9 million, representing an increase of approximately 29.4% from the corresponding period in 2013 (corresponding period in 2013: RMB99.6 million). After the Listing, the Company has abundant financial resources as well as strengthened performance of operating cash flow due to effective operation.

With strong brand value, Fu Shou Yuan provided high value-added services in major cities in eight provinces of China which won the praise from customers. This, coupled with advanced management standards and strong financial position, enabled the Company to expand its business to other cities and carry out mergers and acquisitions in different segments of the industry chain to release potential for market consolidation and bring about economies of scale and synergies to the Company.

Fu Shou Yuan is the largest domestic death care services provider in China and enjoys business advantages and industry leading position. Looking ahead, the management believes that with the Group's superior service quality and its huge potential for industry consolidation, the Company will be able to grow steadily and create value for its Shareholders.

The management of the Company will adhere to the corporate mission of combining traditional death care culture with modern philosophy. The Company not only provides professional and tailor-made comprehensive services to satisfy demand of different customer groups, but also strives in transforming cemeteries into parks through humanity approach, and help people seek warmth and energy from past memories of their loved ones and let farewell be a part of beautiful course of life.

By Order of Board  
**Fu Shou Yuan International Group Limited**  
**BAI Xiaojiang**  
Chairman

Hong Kong, August 4, 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) MARKET OVERVIEW

In the first half of 2014, China recorded a GDP growth rate of 7.4%, which reflected that China's economy remained in a stage of stable growth. The PRC's death care services industry is now the largest in the world and also one of the fastest growing industries. According to the research report of Euromonitor International, the market size of China's death care services industry was RMB46.5 billion in 2012, and is estimated to reach RMB99.3 billion in 2017.

According to the United Nations, the forecasted mortality rate of China's population rises from 7.2% during 2010 to 2015 to 9.4% during 2025 to 2030, and further surges to 15.2% during 2045 to 2050. By comparison, the forecasted mortality rate of more developed countries is 10.4% during 2010 to 2015 and 11.5% during 2025 to 2030, both higher than China's levels. As for 2045 to 2050, forecasted mortality of more developed countries is 12.2% which is lower than China's level. China's white-haired population (aged over 65) is expected to rise from 9.1% in 2013 to 13.2% in 2023. These projections illustrate that China has an aging population which pushes up the mortality rate and drives the demand for death care services.

## (2) BUSINESS REVIEW

Headquartered in Shanghai, the Group is the largest provider of death care services in the PRC, and was hailed as "The leader of China's death care services industry" by China International Capital Corporation Limited, an investment institution. In the first half of 2014, the Group's revenue and earnings mainly derived from the organic growth momentum of its core business.

The main driver of core business is cemeteries, including the two cemeteries in Shanghai as well as one cemetery in each of Hefei, Zhengzhou, Jinan and Jinzhou. Cemetery business accounted for approximately 85% of the Group's total revenue. In the first half of the year, Shanghai Nanyuan made the most prominent contribution to the Group's total revenue, mainly due to significant improvement in its sales system since the acquisition last year which stimulated revenue growth. Other cemeteries still maintained steady growth.

As for funeral services, the revenue mainly came from our operations in Chongqing, Shanghai, Hefei and Xiamen. Funeral services contributed approximately 15% of the total revenue. As stated in the 2013 annual report of the Company, the Group has set up a branch in Ningbo to develop the business in the Zhejiang market. It is expected that the branch will gradually realize contribution in the coming years.

Driven by the organic growth momentum of the Group's key business, the Group's revenue increased from approximately RMB306.7 million for the six months ended June 30, 2013 to approximately RMB410.1 million for the six months ended June 30, 2014. During the Period Under Review, gross profit of the Group increased by 32.5% to RMB326.4 million over the corresponding period last year. The gross profit margin was 79.6% in the first half of the year, which was the same as the corresponding period last year.

The Group's net profit increased from RMB99.6 million for the six months ended June 30, 2013 to approximately RMB128.9 million for the six months ended June 30, 2014.



# MANAGEMENT DISCUSSION AND ANALYSIS

The management of the Company is at present actively pursuing the development plan promised upon Listing last year. To improve standards of the services, the Group is intensifying the application of various information technologies during service provision to enhance customer experience, thereby promoting new services and broadening the product platforms.

Other highlights promised upon Listing include the development of new cemeteries through acquisition of other cemeteries or funeral facilities in China, and building new funeral facilities in major cities in other provinces. Major projects include construction of Nanchang Hongfu Cultural Cemetery (南昌洪福文化陵園) and building environmental-friendly cremation factory in Anhui, which are still in progress. As for acquisition of funeral facilities, the Company announced in June this year the proposed acquisition of 60% interest of a death care business in Chongqing involving approximately RMB111 million. The news received positive feedbacks from market participants.

The management would also like to take this opportunity to point out that, acquisition as one of the main driving forces for the Group's future development, involves certain degree of complexity and uncertainty. In view of this, we have established procedures to systematically and prudently access acquisition opportunities to ensure maximization of Shareholders' interests.

As Fu Shou Yuan is highly regarded for its quality services, its brand recognition and value are on the rise. During the "Show for Innovation Brands of Shanghai Corporate Culture (上海企業文化創新品牌展示)" held in Shanghai in March this year, Fu Shou Yuan was elected as "2012 to 2013 Top 10 Innovation Brands of Shanghai Corporate Culture (二零一二至二零一三年度上海企業文化創新十佳品牌)", and the Company was the only awardee among the funeral brands.

In the first half of 2014, the Group held several memorial ceremonies to commemorate late sage and deceased persons who had contributions to the society. These activities clearly reflected the Company's commitment through innovation and close collaboration with the community; to become a leading death care services provider. These activities covered different themes, including:

- March 20 : Shanghai People's Public Memorial Day (上海市百姓公祭日) activities plus Charity Land Conservation Eco-burial Collective Burial Ceremony (公益節地生態葬集體安葬儀式)
- April 2 : National Death Care Reform Theory Symposium (全國殯葬改革理論學術交流會)
- April 3 : Ching Ming Thanksgiving Ceremony for Shanghai communities (上海市社會各界清明感恩典禮)
- April 4 : Every life is a book — "Family History of the People" book series launching ceremony and authors forum (每個生命都是一本書—《百姓家史》系列叢書首發儀式暨作者座談會)

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

We derive our revenue primarily from three business segments: burial services, funeral services and auxiliary services. The following table sets forth our revenue by segment for the Year Under Review:

|                    | Six-month Period Ended |                       |                      |                       |
|--------------------|------------------------|-----------------------|----------------------|-----------------------|
|                    | June 30, 2014          |                       | June 30, 2013        |                       |
|                    | Revenue<br>(RMB'000)   | % of total<br>revenue | Revenue<br>(RMB'000) | % of total<br>revenue |
| Burial services    | 347,569                | 84.7%                 | 269,553              | 87.9%                 |
| Funeral services   | 52,794                 | 12.9%                 | 37,103               | 12.1%                 |
| Auxiliary services | 9,782                  | 2.4%                  | —                    | —                     |
| <b>Total</b>       | <b>410,145</b>         | <b>100.0%</b>         | <b>306,656</b>       | <b>100.0%</b>         |

Our revenue increased by RMB103.5 million, or 33.7%, from RMB306.7 million for the six-month period ended June 30, 2013 to RMB410.1 million for the six-month period ended June 30, 2014. This increase was primarily driven by a 28.9%, or RMB78.0 million, increase in revenue from burial services, a 42.3%, or RMB15.7 million, increase in revenue from funeral services, and the revenue of RMB9.8 million achieved from our new auxiliary services.

We have been focusing on providing top quality burial and funeral services to our customers and strengthened our sales and marketing effort during the Period Under Review. As a result, we achieved growth as compared to the same period of last year in every location where we operate. In addition, our funeral facilities in Xiamen City of Fujian Province and Ningbo City of Zhejiang Province which commenced business in the middle of Year 2013, provided services throughout the full six-months period in 2014 and contributed revenue of RMB6.9 million. Excluding this effect, we achieved organic revenue growth of RMB87.7 million, or 28.7% as compared with the six-month period ended June 30, 2013, from the then existing cemeteries and funeral facilities as at the end of the year ended December 31, 2013.



# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE – *continued*

The operation of the auxiliary services commenced in the beginning of 2014 and is currently provided via a subsidiary in Shanghai engaging in the provision of landscaping and design services. Going forward, this segment will also include sale of cremation machines and other products for provision of burial services and funeral services.

Our operations are strategically located in major cities across eight provinces in the PRC. The following table sets forth a breakdown of our revenue by region for the Period Under Review:

|              | Six-month Period Ended |                       |                      |                       |
|--------------|------------------------|-----------------------|----------------------|-----------------------|
|              | June 30, 2014          |                       | June 30, 2013        |                       |
|              | Revenue<br>(RMB'000)   | % of total<br>revenue | Revenue<br>(RMB'000) | % of total<br>revenue |
| Shanghai     | 256,821                | 62.6%                 | 184,192              | 60.1%                 |
| Henan        | 23,097                 | 5.6%                  | 17,097               | 5.6%                  |
| Chongqing    | 31,099                 | 7.6%                  | 25,828               | 8.4%                  |
| Anhui        | 43,049                 | 10.5%                 | 35,404               | 11.5%                 |
| Shandong     | 19,732                 | 4.8%                  | 18,310               | 6.0%                  |
| Liaoning     | 29,472                 | 7.2%                  | 24,943               | 8.1%                  |
| Fujian       | 5,966                  | 1.5%                  | 882                  | 0.3%                  |
| Zhejiang     | 909                    | 0.2%                  | —                    | —                     |
| <b>Total</b> | <b>410,145</b>         | <b>100.0%</b>         | <b>306,656</b>       | <b>100.0%</b>         |

# MANAGEMENT DISCUSSION AND ANALYSIS

## BURIAL SERVICES

We derive a substantial portion of our revenue from our burial services, which represented 84.7% (six-month period ended June 30, 2013: 87.9%) of our total revenue for the six-month period ended June 30, 2014. Our burial services include the sale of burial plots and cemetery maintenance services. Sale of burial plots represented the largest component of our revenue from burial services, which contributed 97.9% of our revenue from burial services for the six-month period ended June 30, 2014. Our revenue from the sale of burial plots for a given period is dependent upon the number of units we sold during the period, as well as the average price of the units sold during the period. The following table sets for the breakdown of our revenue from burial services, including revenue from the sale of burial plots by type and revenue from cemetery maintenance services and others, for the Period Under Review:

|   | Six-month Period Ended |                                      |                   |                                   |               |                                      |                   |                                   |
|---|------------------------|--------------------------------------|-------------------|-----------------------------------|---------------|--------------------------------------|-------------------|-----------------------------------|
|   | June 30, 2014          |                                      |                   |                                   | June 30, 2013 |                                      |                   |                                   |
|   | No. of Units           | Average Selling price (RMB per Unit) | Revenue (RMB'000) | % of revenue from burial services | No. of Units  | Average Selling price (RMB per Unit) | Revenue (RMB'000) | % of revenue from burial services |
| <b>Sale of burial plots</b>               |                        |                                      |                   |                                   |               |                                      |                   |                                   |
| — Customized                              | 329                    | 264,343                              | 86,969            | 25.0%                             | 313           | 249,051                              | 77,953            | 28.9%                             |
| — Artistic                                | 1,316                  | 93,959                               | 123,650           | 35.6%                             | 1,134         | 76,315                               | 86,541            | 32.1%                             |
| — Traditional                             | 1,480                  | 45,791                               | 67,771            | 19.5%                             | 1,143         | 42,349                               | 48,405            | 18.0%                             |
| — Lawn                                    | 485                    | 50,763                               | 24,620            | 7.1%                              | 359           | 57,769                               | 20,739            | 7.7%                              |
| — Green                                   | 368                    | 12,851                               | 4,729             | 1.4%                              | 280           | 11,257                               | 3,152             | 1.2%                              |
| — Indoor                                  | 1,527                  | 3,703                                | 5,654             | 1.6%                              | 230           | 22,665                               | 5,213             | 1.9%                              |
| — Other burial related services           | —                      | —                                    | 26,892            | 7.7%                              | —             | —                                    | 21,752            | 8.0%                              |
|   | <b>5,505</b>           | <b>—</b>                             | <b>340,285</b>    | <b>97.9%</b>                      | <b>3,459</b>  | <b>—</b>                             | <b>263,755</b>    | <b>97.8%</b>                      |
| <b>Cemetery maintenance services</b>      | <b>—</b>               | <b>—</b>                             | <b>7,284</b>      | <b>2.1%</b>                       | <b>—</b>      | <b>—</b>                             | <b>5,798</b>      | <b>2.2%</b>                       |
| <b>Total Revenue From Burial Services</b> | <b>5,505</b>           | <b>—</b>                             | <b>347,569</b>    | <b>100.0%</b>                     | <b>3,459</b>  | <b>—</b>                             | <b>269,553</b>    | <b>100.0%</b>                     |

We sold 3,610 burial plots, excluding the green and indoor burials, the six-month period ended June 30, 2014, representing 22.4% increase from 2,949 plots sold for the same period ended June 30, 2013. This was achieved through a combination of enhanced sales and marketing network as well as more tailored pricing strategy for different segments. Furthermore, the selling prices of burial plots of each cemetery vary according to local market conditions. Therefore, the fluctuation in average selling price for each type of burial plot is mainly due to change in geographical mix of burial plots sold between the periods under review. As a whole, the average selling price of burial plots excluding the green and indoor burials increased by approximately 5.9% for the six-month period ended June 30, 2014 as compared with the same period ended June 30, 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BURIAL SERVICES – *continued*

We have six cemeteries currently in operation in five cities, and have been deriving revenue from them. We achieved remarkable period-over-period growth for the Period Under Review as compared to the same period of last year in every cemetery where we operate. The following table sets forth the breakdown of our revenue from the burial services by cemetery for the Period Under Review:

|   | Six-month Period Ended |                       |                      |                       |
|---|------------------------|-----------------------|----------------------|-----------------------|
|   | June 30, 2014          |                       | June 30, 2013        |                       |
|   | Revenue<br>(RMB'000)   | % of total<br>revenue | Revenue<br>(RMB'000) | % of total<br>revenue |
| Shanghai Fu Shou Yuan                     | 176,011                | 50.6%                 | 139,078              | 51.6%                 |
| Haigang Fu Shou Yuan                      | 67,263                 | 19.4%                 | 42,514               | 15.8%                 |
| Henan Fu Shou Yuan                        | 23,097                 | 6.6%                  | 17,097               | 6.3%                  |
| Shandong Fu Shou Yuan                     | 19,732                 | 5.7%                  | 18,310               | 6.8%                  |
| Hefei Dashushan Cultural Cemetery         | 31,993                 | 9.2%                  | 27,611               | 10.2%                 |
| Jinzhou Maoshan Anling                    | 29,473                 | 8.5%                  | 24,943               | 9.3%                  |
| <b>Total Revenue from Burial Services</b> | <b>347,569</b>         | <b>100.0%</b>         | <b>269,553</b>       | <b>100.0%</b>         |

## COST OF SALES AND SERVICES

Cost of sales and services consists primarily of the costs we incurred in relation to our death care services. The following table sets forth information relating to our cost of sales and services by segment for the Period Under Review:

|                    | Six-month Period Ended                     |   |  |   |
|--------------------|--|---|--|---|
|                    | June 30, 2014                              |   | June 30, 2013                              |   |
|                    | Cost of sales<br>and services<br>(RMB'000) | % of total<br>cost of sales<br>and services | Cost of sales<br>and services<br>(RMB'000) | % of total<br>cost of sales<br>and services |
| Burial services    | 62,596                                     | 74.8%                                       | 48,972                                     | 81.3%                                       |
| Funeral services   | 14,013                                     | 16.7%                                       | 11,245                                     | 18.7%                                       |
| Auxiliary services | 7,123                                      | 8.5%  | —  | —   |
| <b>Total</b>       | <b>83,732</b>                              | <b>100.0%</b>                               | <b>60,217</b>                              | <b>100.0%</b>                               |

Our cost of sales and services increased by RMB23.5 million, or 39.0%, from RMB60.2 million for the six-month period ended June 30, 2013 to RMB83.7 million for the six-month period ended June 30, 2014. This increase was primarily due to a 27.8% increase in cost of sales and services for burial services, a 24.6% increase in cost of sales and services for funeral services, and a 100% increase in cost of sales and service for auxiliary services. The increases were mainly due to our business growth in burial and funeral services and launch of the auxiliary services in year 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COST OF SALES AND SERVICES – *continued*

Our cost of sales and services for burial services includes the following:

|                           | Six-month Period Ended                     |   |  |   |
|---------------------------|--|---|--|---|
|                           | June 30, 2014                              |   | June 30, 2013                              |   |
|                           | Cost of sales<br>and services<br>(RMB'000) | % of total<br>cost of sales<br>and services | Cost of sales<br>and services<br>(RMB'000) | % of total<br>cost of sales<br>and services |
| Tombstone cost            | 22,078                                     | 35.3%                                       | 18,009                                     | 36.8%                                       |
| Land cost                 | 6,611                                      | 10.6%                                       | 4,416                                      | 9.0%  |
| Development cost          | 10,994                                     | 17.6%                                       | 10,839                                     | 22.1%                                       |
| Cemetery maintenance cost | 5,651                                      | 9.0%  | 4,427                                      | 9.0%  |
| Others                    | 17,262                                     | 27.5%                                       | 11,281                                     | 23.1%                                       |
| <b>Total</b>              | <b>62,596</b>                              | <b>100.0%</b>                               | <b>48,972</b>                              | <b>100.0%</b>                               |

Our cost of sales and services for funeral services represents the various expenditures incurred in relation to providing funeral services, including salaries of operating staff and supervisors, cost of caskets and other ancillary costs.

Our cost of sales and services for auxiliary services represents the various expenditures incurred in relation to providing landscaping and design services, including staff costs, outsourcing costs, and materials purchased.

## GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB80.0 million, or 32.5%, from approximately RMB246.4 million for the six-month period ended June 30, 2013 to approximately RMB326.4 million for the six-month period ended June 30, 2014. We maintained a relatively high and stable gross profit margin as we have been committing to and delivering highest quality of service in the death care services industry in the PRC. We marketed our services as premium services and our Fu Shou Yuan brand allowed us to obtain a price premium over other death care services providers. Both our gross profit margins for burial services and funeral services remain relatively stable. Our overall gross profit margin achieved was 79.6% for the six-month period ended June 30, 2014 while the overall gross profit margin for the six-month period ended June 30, 2013 was 80.4%. This was mainly due to the effect of relatively lower margin of our newly launched landscaping and design business. The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the Period Under Review:

|                    | Six-month Period Ended    |                               |                           |                               |
|--------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
|                    | June 30, 2014             |                               | June 30, 2013             |                               |
|                    | Gross Profit<br>(RMB'000) | Gross Profit<br>Margin<br>(%) | Gross Profit<br>(RMB'000) | Gross Profit<br>Margin<br>(%) |
| Burial services    | 284,973                   | 82.0%                         | 220,581                   | 81.8%                         |
| Funeral services   | 38,781                    | 73.5%                         | 25,858                    | 69.7%                         |
| Auxiliary Services | 2,659                     | 27.2%                         | —                         | —                             |
| <b>Total</b>       | <b>326,413</b>            | <b>79.6%</b>                  | <b>246,439</b>            | <b>80.4%</b>                  |

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER INCOME AND GAINS, NET

The following table sets forth a breakdown of major components of our net other income and gains for the Period Under Review:

|                                       | Six-month Period Ended     |                            |
|---------------------------------------|----------------------------|----------------------------|
|                                       | June 30, 2014<br>(RMB'000) | June 30, 2013<br>(RMB'000) |
| Interest income                       | 25,716                     | 3,168                      |
| Gain on deemed disposal of associates | —                          | 16,428                     |
| Government grant                      | —                          | 5,356                      |
| Compensation                          | 47                         | 3,952                      |
| Exchange gain                         | 4,855                      | —                          |
| Others                                | 196                        | 746                        |
| <b>Total</b>                          | <b>30,814</b>              | <b>29,650</b>              |

Our interest income increased by RMB22.5 million from RMB3.2 million for the six-month period ended June 30, 2013 to RMB25.7 million for the six-month period ended June 30, 2014, mainly due to the significantly higher average bank deposits balance as a result of our Global Offering and better interest rate achieved from the bank for such deposits for the Period Under Review.

We recorded exchange gain of RMB4.9 million for the six-month period ended June 30, 2014, as a result of appreciation of Hong Kong dollar and US dollar for the Period Under Review.

The government grant in the amount of RMB5.4 million for the six-month period ended June 30, 2013 represented unconditional tax subsidies from the local government to encourage economic development. We did not receive such grant from government for the Period Under Review.

## DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses increased by RMB55.5 million, or 53.8%, from RMB103.1 million for the six-month period ended June 30, 2013 to RMB158.6 million for the six-month period ended June 30, 2014. The increase was mainly as the result of: (i) higher variable expenditures to support the business growth, and (ii) higher staff costs due to the effect of amortization of expenses for the pre-IPO options granted in August 2013, annual salary adjustment and new hiring. Notwithstanding the above, the total operating expenses (including other expenses) remained stable at approximately 38% of the revenue for the six-month period ended June 30, 2014 and the corresponding period in year 2013. We would strive to control the operating expenses to improve operating efficiency.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER EXPENSES

Other expenses of RMB8.3 million for the six-month period ended June 30, 2013 represented the expenditures incurred, but not capitalized, for our Global Offering in year 2013, while there are no such expenses incurred during the Period Under Review. Costs relating to compliance of Listing requires are included under administrative expenses for the Period Under Review.

### Finance Costs

Finance costs for the Period Under Review consist of interest expense of RMB1.4 million on bank loans, and interest expense of RMB3.2 million on loans from non-controlling interests.

Interest expense on loans from non-controlling interests refers to our interest expense in connection with the shareholder's loans borrowed by our subsidiary, Shandong FSY Development, from Shandong World Trade Centre. Shandong FSY Development is jointly invested by our Group and Shandong World Trade Centre. Our Group and Shandong World Trade Centre jointly provide funding to Shandong FSY Development, for its land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentage in addition to the registered capital.

### Income Tax Expense

Under the EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the year with the exception of Chongqing Anle Services and Chongqing Anle Funeral Services, which were subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions. These preferential tax treatments are subject to annual renewal. We also recognized considerable interest income, as discussed above, on bank deposits in Hong Kong territory, where such income is free from any income tax according to the Hong Kong tax rules. Therefore, the income tax expense decreased by approximately RMB9.0 million, or 21.8%, from approximately RMB41.2 million for the six-month period ended June 30, 2013 to approximately RMB32.2 million for the six-month period ended June 30, 2014. Our effective corporate income tax rates for the six-month period ended June 30, 2014 significantly decreased to 16.6%, from that of 25.9% for the six-month period ended June 30, 2013.

## PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a result of the foregoing, our profit and total comprehensive income attributable to owners of the Company increased by approximately RMB29.3 million, or 29.4%, from approximately RMB99.6 million for the six-month period ended June 30, 2013 to approximately RMB128.9 million for the six-month period ended June 30, 2014. This increase was primarily due to (i) our strong revenue growth in our existing cemeteries and funeral facilities; and (ii) lower effective corporate income tax rate for the period. The increase was however offset by the increased operating expenses directly related to the business growth; additional resources deployed to support the Group's extensive effort in acquisition activities and amortization of expenses in connection with pre-IPO options granted in August 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CASH FLOW

The following table sets forth a summary of our consolidated statements of cash flows for the Period Under Review:

|                                   | Six-month Period Ended     |                            |
|-----------------------------------|----------------------------|----------------------------|
|                                   | June 30, 2014<br>(RMB'000) | June 30, 2013<br>(RMB'000) |
| Net cash generated from (used in) |                            |                            |
| – operating activities            | 139,359                    | 58,814                     |
| – investing activities            | (511,443)                  | (6,082)                    |
| – financing activities            | (22,575)                   | (31,836)                   |
| <b>Total</b>                      | <b>(394,659)</b>           | <b>20,896</b>              |

We generate our cash from operating activities, primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for land acquisition, development and construction of cemeteries, selling and distribution expenses and administrative expenses. Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as finance costs and depreciation of property and equipment, and the effects of changes in working capital. For the six-month period ended June 30, 2014, our net cash generated from operating activities amounted to approximately RMB139.4 million. It mainly included the operating cash inflows before movement in working capital of approximately RMB195.3 million, but partially offset by (i) the increase of other working capital of approximately RMB10.5 million due to the business growth; and (ii) income tax paid of approximately RMB45.5 million.

For the six-month period ended June 30, 2014, our net cash used in investing activities was approximately RMB511.4 million. It was primarily due to: (i) increase in time deposits with original maturity of six months, RMB500 million, and (ii) our additions to and deposits for property and equipments of approximately RMB25.8 million, mainly in connection with the construction of factory and production line set-up for manufacturing cremation machines by our subsidiary, Anhui Zhongfude. It was partially offset by the interests received during the Period Under Review, amounting to approximately RMB14.2 million, as a result of increased bank balances mainly due to our Global Offering last year.

Our net cash generated from and used in financing activities amounted to approximately RMB22.6 million for the six-month period ended June 30, 2014. It was primarily due to: (i) dividends paid to owners of the Company of RMB159.5 million related to pre-IPO profits, (ii) dividend paid to non-controlling interests of approximately RMB40.4 million, (iii) payment of unsettled Listing related expenses of approximately RMB10.4 million, and (iv) interest paid of approximately RMB2.9 million for our borrowings. The amount was partially offset by: (i) the proceeds of approximately RMB184.8 million received from the issuance of 75 million new shares as a result of the exercise of over-allotment option, and (ii) our net increase of bank and other borrowings of approximately RMB5.9 million.



# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2014, we had bank balances and cash of approximately RMB1,649.4 million, primarily due to the net proceeds from our Global Offering of 500 million new Shares in December 2013 and another 75 million new Shares in January 2014. In the foreseeable future, we expect to fund our capital expenditures, working capital and other capital requirements from the net proceeds from the Global Offering, cash generated from our operations, and bank borrowings.

We had outstanding bank borrowings of approximately RMB45.0 million as at June 30, 2014, that are wholly repayable within one year. We had bank borrowing facilities of approximately RMB120 million committed but not withdrawn as at June 30, 2014. Meanwhile, Shandong FSY Development, one of our subsidiaries, also had an outstanding loan balance of approximately RMB39.9 million, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre. These borrowings were denominated in Renminbi and were subject to floating interest rates ranged from 6.00% to 7.2%.

## GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as of June 30, 2014 was 2.2%. Our operation has been lightly leveraged because of our good operating cash generating capability. Although expect that our capital expenditure in the remaining months of the year 2014 and afterwards will tremendously increase, we do not estimate our gearing ratio will substantially increase considering the bank balance and cash we currently have in hand. Therefore, we are exposed to limited interest rate risk.

## CURRENCY RISK

The economic environment in which we operate is the PRC and our functional currency is Renminbi. However, certain bank balances are denominated in foreign currencies, which exposes us to foreign currency risk. As at June 30, 2014, cash and cash equivalents held in Renminbi, Hong Kong dollars and US dollars accounted for approximately 86.9%, 10.6% and 2.5% respectively, of the total cash and cash equivalents. We believe the current level of bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. Whilst the Group currently does not have a foreign currency hedging policy, the management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On June 18, 2014, we entered into agreement to acquire an aggregate of 60% equity interest in a Chongqing Baitayuan, a cemetery with 306,212 sq.m. of land offering premium burial and funeral services, by way of initial capital injection of RMB44.69 million and subsequent equity acquisition with a consideration of RMB66 million. It will also enable us to gain access to the cremation market as Chongqing Baitayuan has been in collaboration with the local government to construct a cremation facility to carry out cremation activities, which are under the remit of the government and are historically dominated by the state-owned entities. The transaction is expected to be completed before the end of August 2014.

## EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2014, we had 1,187 full-time employees stationed in ten cities across China. We offer competitive packages as well as fringe benefits to our staff, in which we also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonuses to ensure that our employees are equipped with the necessary skills and are remunerated according to their performance.

## CAPITAL COMMITMENT

We had contracted but not provided in the financial statements, for the capital expenditures in respect of acquisition of land, property and equipment in an amount of approximately RMB172.2 million as at June 30, 2014. We had also authorized RMB60.0 million for the construction of new business centers in Haigang Fu Shou Yuan and Henan Fu Shou Yuan, and for the cemetery landscaping enhancement and infrastructure development of Shandong Fu Shou Yuan.

We expect our capital expenditure in Year 2014 and afterwards will tremendously increase as we are actively seeking for and approached by many industry consolidation opportunities.

## ASSETS PLEDGED

As at June 30, 2014, we pledged buildings with carrying values of approximately RMB3.6 million to secure certain bank borrowings granted to us. Except for that, no other assets were pledged or charged.

## CONTINGENT LIABILITIES

As of June 30, 2014, we did not have any contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CEMETERY LANDS AVAILABLE

We derive a substantial portion of our revenue from our burial services, out of which, sale of burial plots represented the largest component of our revenue from burial services. For the Period Under Review, we expended land of approximately 10,461sq.m. to generate revenue from sale of burial plots. The below table sets forth the saleable area in each of our cemetery as at June 30, 2014:

|                                   | <b>Saleable Area</b><br>(sq.m.) |
|-----------------------------------|---------------------------------|
| Shanghai Fu Shou Yuan             | 190,950                         |
| Haigang Fu Shou Yuan              | 53,661                          |
| Henan Fu Shou Yuan                | 217,323                         |
| Shandong Fu Shou Yuan             | 439,145                         |
| Hefei Dashushan Cultural Cemetery | 41,715                          |
| Jinzhou Maoshan Anling            | <u>19,538</u>                   |
| <b>Total</b>                      | <u><u>962,332</u></u>           |

When we determine the saleable area of each cemetery, we have already estimated and excluded areas not available for burial plots, such as the land areas in connection with the business centre, office building, lake area and main roads.

Meanwhile, Jinzhou Maoshan Anling and Nanchang Hongfu, two of our subsidiaries are in the process of securing additional cemetery lands with a view of further increasing our reserve in cemetery lands by approximately 150,000 sq.m..

### (3) FUTURE PROSPECTS

The management of the Company's has great confident in the growth momentum for the second half of 2014 because the trend of social environment is very favorable to the development of the Company. Meanwhile, the Company also takes more cautious responsive measures for certain challenges such as slowing economic growth and consumption in China. With outstanding management ability and strong business momentum of the Company, we believe that the Company can continue to create good returns for Shareholders in the second half of the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPLIANCE

The Group has emphasized with utmost importance on maintaining sound internal control. The independent internal control adviser and the personnel designated for the internal control center of the Company have conducted a review on the branches and subsidiaries of the Group within the past 7 months. No material deficiencies or non-compliance events were discovered, and demand for rectification was raised based on individual circumstances. The independent internal control adviser will review the progress of rectifications executed by various companies during the second half of the year. The latest information on the measures adopted by the Group for the period from the date of the 2013 annual report to the date of this interim report to prevent future recurrence of non-compliance incidents as set out in the section “Business – Compliance - Measures Adopted to Prevent Future Non-compliance” of the prospectus is provided below:

- (i) Cash management and lending to third parties

The cash pooling system of the Company has started operation, except 4 joint venture companies and their subsidiary units, all subsidiaries of the Group in the PRC have been admitted into the system.

We have also strengthened internal control measures in the companies which have not been admitted into the cash pooling system to ensure that funds will not be used on non-compliance matters. We will conduct internal reviews on regular basis to monitor the effectiveness of such measures.

On matters relating to loans and Zhongfu loans, we have discussed with the Shanghai Branch of the People’s Bank of China (PBOC) to see if they would impose any penalties. As of the date of this interim report, the Board was not aware of any indications of possible penalties to be imposed by the PBOC. Should the Board receive any form of communication from the PBOC in future that penalties may be imposed, the Company will publish a relevant announcement to inform the market timely.
- (ii) Failure to submit statements and registration forms to the relevant environmental protection authorities

The Company has established the construction management and cemetery operation center to coordinate construction matters of the Group to ensure all engineering projects will complete reporting in compliance with legal requirements.

# MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Owned and leased properties

As of the date of this interim report, we have not received any request for compulsory demolition of owned properties as set out in the relevant sections of the prospectus.

We still need to continue following on issues of the 4 remaining leased properties, such properties do not have critical importance in our operations.

The Company would like to report that as mentioned in its 2013 annual report, it has maintained regular communication with its PRC legal advisor, Hong Kong legal advisor and compliance advisor as to its operations and the compliance with the relevant rules and regulations. We have already appointed an independent internal control consultant to monitor the Group's internal control system. Furthermore, as stated in its 2013 annual report, the Company has also maintained a set of policies and procedures for assessing business/asset acquisition opportunities.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at June 30, 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

### (i) Interest in the Shares

| Name of Directors | Capacity                                      | Nature of Interest | Number and class of Shares | Approximate percentage of the issued share capital of the Company (%) |
|-------------------|---|--------------------|----------------------------|---|
| Mr. BAI Xiaojiang | Interest in a controlled corporation (Note 1) | Long position      | 96,600,000 Ordinary        | 4.66%   |
| Mr. WANG Jisheng  | Interest in a controlled corporation (Note 2) | Long position      | 96,600,000 Ordinary        | 4.66%   |
| Mr. LU Hesheng    | Interest in a controlled corporation (Note 3) | Long position      | 27,600,000 Ordinary        | 1.33%   |

Notes:

1. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch Limited, which in turn is interested in approximately 4.66% of the issued share capital of the Company.
2. Wang Jisheng is interested in the entire issued share capital of Peaceful Field Limited, which in turn is interested in approximately 4.66% of the issued share capital of the Company.
3. Lu Hesheng is interested in the entire issued share capital of Grand Fire Limited, which in turn is interested in approximately 1.33% of the issued share capital of the Company.

### (ii) Interest in underlying Shares of share options

The Directors of the Company have been granted options under the Company's Pre-IPO Share Option Scheme, details of which are set out in section headed "Pre-IPO Share Option Scheme".

Save as disclosed above, at no time during the six-month period ended June 30, 2014, the Directors and chief executive (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# OTHER INFORMATION

## SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on December 3, 2013. During the six months ended June 30, 2014, the Company had not granted any options under the Share Option Scheme. As at June 30, 2014, the total number of Shares available for issue under the Share Option Scheme was 200,000,000 Shares, representing 9.64% of the total issued share capital of the Company. On August 5, 2014, the Company granted 42,000,000 share options under its Share Option Scheme to certain Directors, chief executives and employees of the Group. As at the publication date of this interim report, the total number of Shares available for issue under the Share Option Scheme was 158,000,000 Shares representing 7.61% of the total issued share capital of the Company.

## PRE-IPO SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on March 10, 2013.

Pursuant to the Pre-IPO Share Option Scheme, the Company granted 57,613,169 options underlying ordinary shares on August 8, 2013. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

- (a) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 100,000,000 Shares representing approximately 4.8% of the issued share capital of the Company as at the date of this report;
- (b) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

| <b>Exercise period</b>                | <b>Maximum percentage of Shares underlying the options exercisable</b> |
|---------------------------------------|--|
| From August 8, 2015 to August 7, 2017 | 50% of the total number of Shares underlying the options granted       |
| From August 8, 2016 to August 7, 2017 | 50% of the total number of Shares underlying the options granted       |

- (c) save for the options which have been granted before the Listing Date, no further options have been/will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (d) each option granted under the Pre-IPO Share Option Scheme has a four-year exercise period from August 8, 2013 to August 7, 2017.

As at the date of this report, options to subscribe for an aggregate of 57,613,169 Shares (representing approximately 2.8% of the total issued share capital of the Company) at an exercise price of RMB0.9 each, which equal to a 63.4% discount to the Offer Price (as defined in the Prospectus), being the mid-point of the Offer Price range stated in the Prospectus, have been granted to 199 participants by the Company at the consideration of HK\$1.00 under the Pre-IPO Share Option Scheme. This included two Directors, seven members of the senior management of the Group (excluding the member of the senior management of the Group who is also a Director receiving options), and 190 other employees of the Group.



## OTHER INFORMATION

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme:

| <b>Grantee</b>   | <b>Total number of outstanding options underlying Ordinary Shares as at January 1, 2014</b> | <b>Number of options underlying Ordinary Shares exercised during the six months ended June 30, 2014</b> | <b>Number of options underlying Ordinary Shares cancelled during the six months ended June 30, 2014</b> | <b>Number of options underlying Ordinary Shares lapsed during the six months ended June 30, 2014</b> | <b>Number of outstanding options underlying Ordinary Shares as at June 30, 2014</b> |
|--|---|---|---|--|---|
| <i>Directors</i>   |   |   |   |  |   |
| Bai Xiaojiang<br>(Chairman and executive Director)       | 3,453,452   | —   | —   | —  | 3,453,452   |
| Wang Jisheng<br>(General Manager and executive Director) | 3,453,452   | —   | —   | —  | 3,453,452   |
| <i>Substantial Shareholder</i>                           |   |   |   |  |   |
| Ge Qiansong<br>(Senior management)                       | 2,877,877   | —   | —   | —  | 2,877,877   |
| <i>Other employees<br/>(in aggregate)</i>                |   |   |   |  |   |
|  | 47,828,388  | —   | —   | —  | 47,828,388  |
| <b>Total</b>   | <b>57,613,169</b>   | <b>—</b>  | <b>—</b>  | <b>—</b>   | <b>57,613,169</b>   |

Except for the grantees set out above, none of the grantees under the Pre-IPO Share Option Scheme is a connected person of the Group as defined under the Listing Rules.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2014, so far as the Directors or the chief executive were aware, the Shareholders, other than the Directors or chief executive of the Company, who had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of substantial shareholders   | Capacity  | Nature of Interest | Number and class of Shares | Approximate percentage of the issued share capital of the Company (%) |
|--|---|--------------------|----------------------------|---|
| FSG Holding Corporation<br>("FSG Holding")                                   | Beneficial owner  | Long position      | 525,000,000<br>Ordinary    | 25.30%  |
| Mr. Tan Tize Shune<br>(also known as<br>"Tan Chih Chun")                     | Founder of a discretionary trust (Note 1)               | Long position      | 525,000,000<br>Ordinary    | 25.30%  |
| Chief Union Investments Limited<br>("Chief Union")                           | Beneficial owner (Note 2)                               | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| Fulechuan International<br>Group Co., Ltd. ("Fulechuan")                     | Interest in a controlled corporation (Note 3)           | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| China Zhongfu Industrial Co., Ltd.*<br>("Zhongfu")                           | Interest in a controlled corporation (Note 4)           | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| Shanghai Hongfu Investment<br>Development Co., Ltd.*<br>("Hongfu")           | Interest in a controlled corporation<br>(Notes 4, 5, 6) | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| Shanghai Zhongmin Elderly<br>Affairs Development<br>Service Centre* ("NGO1") | Interest in a controlled corporation (Notes 5)          | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| Shanghai Zhongmin Elderly<br>Affairs Consultancy<br>Service Centre* ("NGO2") | Interest in a controlled corporation (Notes 6)          | Long position      | 483,000,000<br>Ordinary    | 23.28%  |
| Double Riches Investments<br>Limited ("Double Riches")                       | Beneficial owner  | Long position      | 119,445,000<br>Ordinary    | 5.76%   |
| Ge Qiansong  | Interest in a controlled corporation (Note 7)           | Long position      | 119,445,000<br>Ordinary    | 5.76%   |

## OTHER INFORMATION

### Notes:

1. Mr. Tan Tize Shune (also known as “Tan Chih Chun”), the father of Tan Leon Li-an, is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of FSG Holding through (i) being a settlor of a trust, which in turn is interested in the entire issued share capital of Pacific Millennium Investment Corporation, the largest shareholder of FSG Holding; and (ii) being a settlor of another trust, which in turn is interested in the entire issued share capital of Fast Answer Limited, the third largest shareholder of FSG Holding. Together, Mr. Tan Tize Shune is interested in an aggregate of 48.15% of the issued share capital of FSG Holding. Accordingly, Mr. Tan Tize Shune is deemed or taken to be interested in approximately 25.30% of the issued share capital of the Company in which FSG Holding is interested in.
2. Chief Union is a direct wholly-owned subsidiary of Fulechuan and Fulechuan will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.
3. Fulechuan is a direct wholly-owned subsidiary of Zhongfu and Zhongfu will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.
4. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.
5. Hongfu is owned by NGO 1 as to 50% and NGO 1 will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.
6. Hongfu is owned by NGO 2 as to 50% and NGO 2 will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.
7. Ge Qiansong is interested in approximately 34.66% of the issued share capital of Double Riches and therefore Ge Qiansong will be deemed or taken to be interested in approximately 5.76% of the issued share capital of the Company in which Double Riches is interested in.

Save as disclosed above, as at June 30, 2014, so far as the Directors were aware, no other persons (other than the Directors or chief executives) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the six months ended June 30, 2014.

During the six months ended June 30, 2014, the Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standards set out in the Model Code for compliance by its relevant employees who are likely to be in possession of inside information of the Company in respect of their dealings in the Company’s securities.

No incident of non-compliance with the Model Code by the Directors or Relevant Employees was noted by the Company during the Period Under Review.

# OTHER INFORMATION

## UPDATE ON THE BIOGRAPHICAL DETAILS OF THE DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the update on the biographical details of the Directors of the Company are as follows:

- Mr. Ho Man presently is a managing director of an investment holding company. Prior to that, Mr. Ho had been an executive partner representative of a Chengdu-based private equity investment fund since December 2011 until May 2014.

Save as disclosed above, after having made all reasonable enquiry, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's Interim report 2014.

## USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company's Shares (after the exercise of the Over-allotment Option (as defined in the Prospectus)), excluding Listing related expenses, amounted to approximately HK\$1,758.9 million, and the net proceeds were applied in the manner consistent with that set out in the Prospectus.

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$0.0195 per Share for the six months ended June 30, 2014, and also set aside sufficient cash for further business development while repaying shareholders with benefits. The interim dividend is expected to be payable to the Shareholders on or before Friday, September 12, 2014. The dividend will be payable to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, September 4, 2014.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, September 2, 2014 to Thursday, September 4, 2014, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, September 1, 2014.

## CORPORATE GOVERNANCE

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to achieving high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of opinion that the Company has complied with the code provisions as set out in the CG Code throughout the six months ended June 30, 2014.

## OTHER INFORMATION

### REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial report of the Group for the six months ended June 30, 2014 have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor will be included in the interim report of the Company to be despatched to the shareholders.

The Audit Committee of the Company, comprising two independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee) and Mr. Luo Zhuping, and one non-executive Director, namely, Mr. Huang James Chih-Cheng, has reviewed together with the management the accounting principles and policies adopted by the Group, the unaudited interim results for the six months ended June 30, 2014.

### EVENTS AFTER THE REPORTING PERIOD

Save as disclosed herein, there was no other significant events that might affect the Group since the end of the Period Under Review.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF FU SHOU YUAN INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fu Shou Yuan International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 50, which comprise the condensed consolidated statement of financial position as of June 30, 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

August 4, 2014

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2014

|   |                                | For the six months<br>ended June 30, |                       |
|---|--------------------------------|--------------------------------------|-----------------------|
| NOTES   | 2014<br>RMB'000<br>(Unaudited) | 2013<br>RMB'000<br>(Audited)         |                       |
| Revenue   | 5                              | 410,145                              | 306,656               |
| Cost of sales and services                                    |                                | <u>(83,732)</u>                      | <u>(60,217)</u>       |
| Gross profit  |                                | 326,413                              | 246,439               |
| Other income and gains, net                                   | 6                              | 30,814                               | 29,650                |
| Distribution and selling expenses                             |                                | (76,560)                             | (52,586)              |
| Administrative expenses                                       |                                | (82,059)                             | (50,519)              |
| Finance costs   | 7                              | (4,649)                              | (5,351)               |
| Other expenses  |                                | <u>—</u>                             | <u>(8,298)</u>        |
| Profit before taxation  | 8                              | 193,959                              | 159,335               |
| Income tax expenses   | 9                              | <u>(32,195)</u>                      | <u>(41,198)</u>       |
| Profit and total comprehensive income for the period          |                                | <u><u>161,764</u></u>                | <u><u>118,137</u></u> |
| <b>Profit and total comprehensive income attributable to:</b> |                                |                                      |                       |
| Owners of the Company   |                                | 128,913                              | 99,595                |
| Non-controlling interests                                     |                                | <u>32,851</u>                        | <u>18,542</u>         |
|   |                                | <u><u>161,764</u></u>                | <u><u>118,137</u></u> |
|   |                                | <b>RMB cents</b>                     | <b>RMB cents</b>      |
| Earnings per share – Basic                                    | 11                             | <u>6.2</u>                           | <u>7.0</u>            |
| – Diluted   | 11                             | <u>6.1</u>                           | <u>7.0</u>            |



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2014

|  | NOTES | June 30,<br>2014<br>RMB'000<br>(Unaudited) | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|-------|--|--|
| <b>Non-current assets</b>                    |       |  |  |
| Property and equipment                       | 12    | 203,821                                    | 187,667                                      |
| Intangible assets                            |       | 13,411                                     | 13,474                                       |
| Cemetery assets                              |       | 446,573                                    | 440,531                                      |
| Restricted deposits                          | 13    | 19,740                                     | 19,506                                       |
| Deferred tax assets                          | 14    | 27,694                                     | 31,093                                       |
| Goodwill                                     |       | 28,102                                     | 28,102                                       |
|  |       | <u>739,341</u>                             | <u>720,373</u>                               |
| <b>Current assets</b>                        |       |  |  |
| Inventories                                  | 15    | 171,035                                    | 182,680                                      |
| Other receivables                            | 16    | 31,978                                     | 21,086                                       |
| Bank balances and cash                       | 17    | 1,649,353                                  | 1,544,012                                    |
|  |       | <u>1,852,366</u>                           | <u>1,747,778</u>                             |
| <b>Current liabilities</b>                   |       |  |  |
| Trade and other payables                     | 18    | 135,682                                    | 171,321                                      |
| Deferred income                              | 20    | 14,568                                     | 11,629                                       |
| Dividends payable                            | 10    | —  | 159,500                                      |
| Income tax liabilities                       |       | 115,387                                    | 130,628                                      |
| Borrowings                                   | 19    | 44,950                                     | 39,050                                       |
|  |       | <u>310,587</u>                             | <u>512,128</u>                               |
| <b>Net current assets</b>                    |       | <u>1,541,779</u>                           | <u>1,235,650</u>                             |
| <b>Total assets less current liabilities</b> |       | <u>2,281,120</u>                           | <u>1,956,023</u>                             |
| <b>Non-current liabilities</b>               |       |  |  |
| Deferred income                              | 20    | 153,811                                    | 142,967                                      |
| Loans from non-controlling interests         | 26    | 39,880                                     | 38,173                                       |
| Deferred tax liabilities                     | 14    | 28,512                                     | 29,946                                       |
|  |       | <u>222,203</u>                             | <u>211,086</u>                               |
| <b>Net assets</b>                            |       | <u>2,058,917</u>                           | <u>1,744,937</u>                             |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2014

|  | NOTES | June 30,<br>2014<br>RMB'000<br>(Unaudited) | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|-------|--|--|
| <b>Capital and reserves</b>                  |       |  |  |
| Share capital                                | 21    | 125,689                                    | 121,158                                      |
| Reserves                                     |       | <u>1,775,991</u>                           | <u>1,458,960</u>                             |
| Equity attributable to owners of the Company |       | 1,901,680                                  | 1,580,118                                    |
| Non-controlling interests                    |       | <u>157,237</u>                             | <u>164,819</u>                               |
| <b>Total equity</b>                          |       | <u><b>2,058,917</b></u>                    | <u><b>1,744,937</b></u>                      |

The condensed consolidated financial statements on pages 27 to 50 were approved and authorized for issue by the Board of Directors on August 4, 2014 and are signed on its behalf by:

**Bai Xiaojiang**  
*DIRECTOR*

**Wang Jisheng**  
*DIRECTOR*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014

|   | Share capital | Share premium | Special reserve | Statutory surplus reserve | Other reserve | Share option reserve | Retained profits | Subtotal attributable to owners of the Company | Non-controlling interests | Total     |
|---|---------------|---------------|-----------------|---------------------------|---------------|----------------------|------------------|--|---------------------------|-----------|
|   | RMB'000       | RMB'000       | RMB'000         | RMB'000                   | RMB'000       | RMB'000              | RMB'000          | RMB'000  | RMB'000                   | RMB'000   |
| At January 1, 2013 (Audited)  | —             | —             | 5,000           | 50,659                    | —             | —                    | 187,428          | 243,087  | 137,915                   | 381,002   |
| Profit and total comprehensive income for the period                  | —             | —             | —               | —                         | —             | —                    | 99,595           | 99,595   | 18,542                    | 118,137   |
| Deemed contribution from the shareholders                             | —             | —             | 79,667          | —                         | —             | —                    | —                | 79,667   | —                         | 79,667    |
| Acquisition of additional interest in existing subsidiaries           | —             | —             | —               | —                         | 26,784        | —                    | —                | 26,784   | (55,472)                  | (28,688)  |
| Contributions from non-controlling interests                          | —             | —             | —               | —                         | —             | —                    | —                | —  | —                         | —         |
| Acquisition of a newly established subsidiary which is not a business | —             | —             | —               | —                         | —             | —                    | —                | —  | 200                       | 200       |
| Acquisition of a subsidiary   | —             | —             | —               | —                         | —             | —                    | —                | —  | 77,929                    | 77,929    |
| Dividends recognized as distributions                                 | —             | —             | —               | —                         | —             | —                    | (104,500)        | (104,500)                                      | —                         | (104,500) |
| Dividends paid to non-controlling interests                           | —             | —             | —               | —                         | —             | —                    | —                | —  | (10,000)                  | (10,000)  |
| At June 30, 2013 (Audited)  | —             | —             | 84,667          | 50,659                    | 26,784        | —                    | 182,523          | 344,633  | 169,114                   | 513,747   |
| Profit and total comprehensive income for the period                  | —             | —             | —               | —                         | —             | —                    | 67,660           | 67,660   | 4,283                     | 71,943    |
| Contributions from non-controlling interests                          | —             | —             | —               | —                         | —             | —                    | —                | —  | 1,524                     | 1,524     |
| Acquisition of a newly established subsidiary which is not a business | —             | —             | —               | —                         | —             | —                    | —                | —  | (200)                     | (200)     |
| Acquisition of a subsidiary   | —             | —             | —               | —                         | —             | —                    | —                | —  | —                         | —         |
| Dividends recognized as distributions                                 | —             | —             | —               | —                         | —             | —                    | (55,000)         | (55,000)                                       | —                         | (55,000)  |
| Dividends paid to non-controlling interests                           | —             | —             | —               | —                         | —             | —                    | —                | —  | (9,902)                   | (9,902)   |
| Issue of shares at premium through initial public offerings           | 30,290        | 1,270,575     | —               | —                         | —             | —                    | —                | 1,300,865                                      | —                         | 1,300,865 |
| Transaction costs attributable to issue of new shares                 | —             | (84,616)      | —               | —                         | —             | —                    | —                | (84,616)                                       | —                         | (84,616)  |
| Capitalization of share premium                                       | 90,868        | (90,868)      | —               | —                         | —             | —                    | —                | —  | —                         | —         |
| Share based compensation  | —             | —             | —               | —                         | —             | 6,576                | —                | 6,576  | —                         | 6,576     |
| Transfer to statutory reserve   | —             | —             | —               | 14,006                    | —             | —                    | (14,006)         | —  | —                         | —         |
| At December 31, 2013 (Audited)  | 121,158       | 1,095,091     | 84,667          | 64,665                    | 26,784        | 6,576                | 181,177          | 1,580,118                                      | 164,819                   | 1,744,937 |
| Profit and total comprehensive income for the period                  | —             | —             | —               | —                         | —             | —                    | 128,913          | 128,913  | 32,851                    | 161,764   |
| Issue of shares through exercise of over-allotment option             | 4,531         | 180,226       | —               | —                         | —             | —                    | —                | 184,757  | —                         | 184,757   |
| Dividends paid to non-controlling interests                           | —             | —             | —               | —                         | —             | —                    | —                | —  | (40,433)                  | (40,433)  |
| Share based compensation  | —             | —             | —               | —                         | —             | 7,892                | —                | 7,892  | —                         | 7,892     |
| At June 30, 2014 (Unaudited)  | 125,689       | 1,275,317     | 84,667          | 64,665                    | 26,784        | 14,468               | 310,090          | 1,901,680                                      | 157,237                   | 2,058,917 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

|  | For the six months<br>ended June 30, |                              |
|--|--------------------------------------|------------------------------|
|  | 2014<br>RMB'000<br>(Unaudited)       | 2013<br>RMB'000<br>(Audited) |
| <b>OPERATING ACTIVITIES</b>  |                                      |                              |
| Profit before taxation   | 193,959                              | 159,335                      |
| Adjustments for:   |                                      |                              |
| Finance costs  | 4,649                                | 5,351                        |
| Interest income  | (25,716)                             | (3,168)                      |
| Depreciation of property and equipment                               | 8,930                                | 7,104                        |
| Amortization of cemetery assets                                      | 5,670                                | 4,366                        |
| Amortization of intangible assets                                    | 177                                  | 187                          |
| Net gain on disposal of property and equipment                       | (225)                                | (701)                        |
| Gain on deemed disposal of an associate                              | —                                    | (16,428)                     |
| Expense recognized in respect of equity-settled share based payments | 7,892                                | —                            |
| Operating cash flows before movements in working capital             | 195,336                              | 156,046                      |
| Increase in restricted deposits                                      | (234)                                | (565)                        |
| Increase in cemetery assets and inventories                          | (67)                                 | (54,926)                     |
| Decrease in other receivables  | 1,977                                | 2,808                        |
| Decrease in trade and other payables                                 | (25,965)                             | (27,092)                     |
| Increase in deferred income  | 13,783                               | 9,365                        |
| Cash generated from operations                                       | 184,830                              | 85,636                       |
| Income taxes paid  | (45,471)                             | (26,822)                     |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                  | <b>139,359</b>                       | <b>58,814</b>                |
| <b>INVESTING ACTIVITIES</b>  |                                      |                              |
| Additions to and deposits paid for property and equipment            | (25,799)                             | (24,753)                     |
| Payment to related parties   | —                                    | (240)                        |
| Purchase of intangible assets  | (114)                                | (1,364)                      |
| Proceeds on disposal of property and equipment                       | 273                                  | 4,281                        |
| Advance to independent third parties                                 | —                                    | (35,727)                     |
| Repayment from independent third parties                             | —                                    | 6,590                        |
| Acquisition of subsidiaries  | —                                    | 38,788                       |
| Repayment from non-controlling interests                             | —                                    | 3,418                        |
| Interest received  | 14,197                               | 3,025                        |
| Investment in associates   | —                                    | (100)                        |
| Placement of time deposits   | (500,000)                            | —                            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                         | <b>(511,443)</b>                     | <b>(6,082)</b>               |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

|  | NOTE | For the six months<br>ended June 30, |                              |
|--|------|--------------------------------------|------------------------------|
|  |      | 2014<br>RMB'000<br>(Unaudited)       | 2013<br>RMB'000<br>(Audited) |
| <b>FINANCING ACTIVITIES</b>  |      |                                      |                              |
| New bank borrowings raised   |      | 44,950                               | 25,000                       |
| Repayment of bank borrowings   |      | (39,050)                             | (18,000)                     |
| Repayment of other borrowings  |      | —                                    | (3,500)                      |
| Advance from related parties   |      | —                                    | 30,429                       |
| Repayment to related parties   |      | —                                    | (37,690)                     |
| Loans from non-controlling interests   |      | —                                    | 3,638                        |
| Repayments to non-controlling interests  |      | (1,492)                              | (900)                        |
| Acquisition of additional interest in existing subsidiaries                                      |      | —                                    | (24,189)                     |
| Interest paid  |      | (1,449)                              | (6,624)                      |
| Dividends paid to non-controlling interests  |      | (40,433)                             | —                            |
| Dividends paid to owners of the Company  |      | (159,500)                            | —                            |
| Proceeds from issue of ordinary shares   |      | 184,757                              | —                            |
| Payment of listing related expense   |      | (10,358)                             | —                            |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>   |      | <b>(22,575)</b>                      | <b>(31,836)</b>              |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      |      | <b>(394,659)</b>                     | <b>20,896</b>                |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING<br/>OF THE PERIOD</b>                                  |      | <b>1,544,012</b>                     | <b>286,860</b>               |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,<br/>REPRESENTED BY BANK BALANCES AND CASH</b> | 17   | <b>1,149,353</b>                     | <b>307,756</b>               |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 1. GENERAL

Fu Shou Yuan International Group Limited (the “Company”) is a limited company incorporated on January 5, 2012 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands, and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on December 19, 2013. The Company and its subsidiaries (collectively referred to as the “Group”) are mainly engaged in the sale of burial plots, provision of funeral services and provision of cemetery maintenance services (the “Core Business”).

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company and its principal subsidiaries.

## 2. BASIS OF PREPARATION OF CONDENSED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidation financial statements for the six months ended June 30, 2014 are the same as those followed in the preparation of the Group’s annual financial statement for the year ended December 31, 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards (“IFRS”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

|  |  |
|--|--|
| Amendments to IFRS 10, IFRS 12<br>and IAS 27 | Investment Entities  |
| Amendments to IAS 32                         | Offsetting Financial Assets and Financial Liabilities        |
| Amendments to IAS 36                         | Recoverable Amount Disclosures for Non-Financial Assets      |
| Amendments to IAS 39                         | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC-21                                     | Levies   |

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group’s financial instruments, including the loans and receivables (including other receivables, amounts due from related parties, bank balances and cash) and financial liabilities (including trade and other payables, amounts due to related parties and borrowings), are recorded at amortized cost. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 5. SEGMENT INFORMATION

Information reported to the Group's General Manager, being the Group's chief operating decision maker, for the purpose of making decisions about allocating resources and assessing performance, focuses on the products and services delivered or provided.

The Group's reportable and operating segments are as follows:

- Burial services – sale of burial plots and provision of cemetery maintenance services.
- Funeral services – planning of funeral arrangement and interment to the organization and hosting of the funeral.
- Auxiliary services – provision of design services and products auxiliary to burial services and funeral services.

### Segment revenues and results

|  | Burial services      |                      |           |                  |                    |          |
|--|----------------------|----------------------|-----------|------------------|--------------------|----------|
|  | Cemetery             |                      |           | Funeral services | Auxiliary services | Total    |
|  | Sale of burial plots | maintenance services | Sub-total |                  |                    |          |
| RMB'000  | RMB'000              | RMB'000              | RMB'000   | RMB'000          | RMB'000            |          |
| <i>For the six months ended June 30, 2014:</i> |                      |                      |           |                  |                    |          |
| Segment revenue                                | 340,285              | 7,284                | 347,569   | 52,794           | 9,782              | 410,145  |
| Segment profit                                 | 283,340              | 1,633                | 284,973   | 38,781           | 2,659              | 326,413  |
| Other income and gains, net                    |                      |                      |           |                  |                    | 30,814   |
| Distribution and selling expenses              |                      |                      |           |                  |                    | (76,560) |
| Administrative expenses                        |                      |                      |           |                  |                    | (82,059) |
| Finance costs                                  |                      |                      |           |                  |                    | (4,649)  |
| Profit before taxation                         |                      |                      |           |                  |                    | 193,959  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 5. SEGMENT INFORMATION – *continued*

### Segment revenues and results – *continued*

|  | Burial services                    |                                    |                      |                                |                                  | Total<br>RMB'000 |
|--|------------------------------------|------------------------------------|----------------------|--------------------------------|----------------------------------|------------------|
|  | Cemetery                           |                                    | Sub-total<br>RMB'000 | Funeral<br>services<br>RMB'000 | Auxiliary<br>services<br>RMB'000 |                  |
|  | Sale of<br>burial plots<br>RMB'000 | maintenance<br>services<br>RMB'000 |                      |                                |                                  |                  |
| <i>For the six months ended June 30, 2013:</i> |                                    |                                    |                      |                                |                                  |                  |
| Segment revenue                                | 263,755                            | 5,798                              | 269,553              | 37,103                         | —                                | 306,656          |
| Segment profit                                 | 219,209                            | 1,372                              | 220,581              | 25,858                         | —                                | 246,439          |
| Other income and gains, net                    |                                    |                                    |                      |                                |                                  | 29,650           |
| Distribution and selling expenses              |                                    |                                    |                      |                                |                                  | (52,586)         |
| Administrative expenses                        |                                    |                                    |                      |                                |                                  | (50,519)         |
| Finance costs                                  |                                    |                                    |                      |                                |                                  | (5,351)          |
| Other expenses                                 |                                    |                                    |                      |                                |                                  | (8,298)          |
| Profit before taxation                         |                                    |                                    |                      |                                |                                  | 159,335          |

The accounting policies of the operating segments are similar to those of the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income and gains, net, distribution and selling expenses, administrative expenses, finance costs and other expenses. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. There were no inter-segment revenues during the six-month period ended June 30, 2014 and 2013. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 6. OTHER INCOME AND GAINS, NET

|  | For the six months<br>ended June 30, |                              |
|--|--------------------------------------|------------------------------|
|  | 2014<br>RMB'000<br>(Unaudited)       | 2013<br>RMB'000<br>(Audited) |
| Other income:  |                                      |                              |
| Interest income on bank deposits                           | 25,716                               | 2,114                        |
| Interest income on borrowings to related party             | —                                    | 238                          |
| Interest income on borrowings to independent third parties | —                                    | 816                          |
| Government grants  | —                                    | 5,356                        |
|  | 25,716                               | 8,524                        |
| Net gains and losses:                                      |                                      |                              |
| Net gain on disposal of property and equipment             | 225                                  | 701                          |
| Donation   | (20)                                 | (220)                        |
| Gain on deemed disposal of associates                      | —                                    | 16,428                       |
| Compensation   | 47                                   | 3,952                        |
| Exchange gain  | 4,855                                | —                            |
| Others   | (9)                                  | 265                          |
|  | 5,098                                | 21,126                       |
| Other income and gains, net                                | 30,814                               | 29,650                       |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 7. FINANCE COSTS

|  | For the six months<br>ended June 30, |                              |
|--|--------------------------------------|------------------------------|
|  | 2014<br>RMB'000<br>(Unaudited)       | 2013<br>RMB'000<br>(Audited) |
| Interest expense on borrowings wholly repayable within five years  | 1,459                                | 2,595                        |
| Interest expense on loans from non-controlling interests<br>wholly repayable within five years (note 26) | 3,190                                | 2,213                        |
| Interest expense on borrowings from independent third<br>parties wholly repayable within five years      | —                                    | 543                          |
| Total finance costs  | <u>4,649</u>                         | <u>5,351</u>                 |

## 8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

|  | For the six months<br>ended June 30, |                              |
|--|--------------------------------------|------------------------------|
|  | 2014<br>RMB'000<br>(Unaudited)       | 2013<br>RMB'000<br>(Audited) |
| Staff costs, including Directors' remuneration (note 8):                 |                                      |                              |
| Salaries, wages, bonus and other benefits                                | 73,702                               | 45,504                       |
| Retirement benefits scheme contributions                                 | 4,631                                | 3,558                        |
| Share based payments expenses  | 7,892                                | —                            |
| Total staff costs  | <u>86,225</u>                        | <u>49,062</u>                |
| Auditors' remuneration   | 1,000                                | 196                          |
| Depreciation of property and equipment                                   | 8,930                                | 7,104                        |
| Cost of inventories recognized as an expense                             | 42,759                               | 34,093                       |
| Amortization of intangible assets (included in administrative expenses)  | 177                                  | 187                          |
| Amortization of cemetery assets (included in cost of sales and services) | 5,670                                | 4,366                        |
| Listing expenses (included in other expenses)                            | —                                    | 8,298                        |
| Operating lease rentals  | 4,436                                | 2,896                        |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 9. INCOME TAX EXPENSE

|                                       | For the six months<br>ended June 30, |               |
|---------------------------------------|--------------------------------------|---------------|
|                                       | 2014                                 | 2013          |
|                                       | RMB'000                              | RMB'000       |
|                                       | (Unaudited)                          | (Audited)     |
| PRC Enterprise Income Tax ("PRC EIT") | 30,230                               | 40,191        |
| Deferred tax (note 14)                | 1,965                                | 1,007         |
|                                       | <u>32,195</u>                        | <u>41,198</u> |

Under the PRC EIT Law and Implementation Regulations of the PRC EIT Law, the tax rate of the PRC subsidiaries is 25%.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), Chongqing Anle Services Company Limited ("Chongqing Anle Services") and Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), two 100% owned subsidiaries of the Group, which are located in specific province of Western China and engaged in specific encouraged industry, enjoy a preferential tax rate of 15% under PRC EIT Law.

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain.

Fu Shou Yuan Group (Hong Kong) Limited ("FSY Hong Kong") is subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been provided as the Group did not have assessable profit earned in or derived from Hong Kong during the six-month ended June 30, 2014.

## 10. DIVIDENDS

During the six-month period ended June 30, 2014, no dividends were declared by the Group as distributions to its owners (six-month period ended June 30, 2013: RMB104,500,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK1.95 cents per share will be paid to the others of the Company whose names appear in the Register of Members on September 4, 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

|  | For the six months<br>ended June 30, |                      |
|--|--------------------------------------|----------------------|
|  | 2014<br>(Unaudited)                  | 2013<br>(Audited)    |
| <b>Earnings</b>  |                                      |                      |
| Earnings for the purpose of basic and diluted earnings per share (RMB'000)               | <b>128,913</b>                       | 99,595               |
| <b>Number of shares</b>  |                                      |                      |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | <b>2,071,270,718</b>                 | 1,499,960,861        |
| Effect of dilutive potential ordinary shares:  |                                      |                      |
| Share options  | <b>36,601,532</b>                    | —                    |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <b><u>2,107,872,250</u></b>          | <u>1,499,960,861</u> |

The diluted earnings per share is the same as basic earnings per share for the six months ended June 30, 2013 as there was no potential dilutive ordinary share in issue.

## 12. PROPERTY AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately RMB25,132,000 (six months ended June 30, 2013: RMB34,660,000) for business expansion.

During the period, the Group disposed of property, plant and equipment with carrying amount of approximately RMB48,000 (six months ended June 30, 2013: RMB3,580,000) for cash proceeds of approximately RMB273,000 (six months ended June 30, 2013: RMB4,281,000), resulting in a gain on disposal of approximately RMB225,000 (six months ended June 30, 2013: RMB701,000).

As at June 30, 2014, the Group pledged buildings with carrying values of approximately RMB3,567,000 (December 31, 2013: RMB10,555,000), to secure bank loans granted to the Group. The buildings are situated on lands in the PRC which are held by the Group under medium-term leases.

As at June 30, 2014, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB12,292,000 (December 31, 2013: RMB12,742,000) had not been obtained.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 13. RESTRICTED DEPOSITS

In accordance with the relevant requirement of the Shanghai government, the Group has to deposit 10% of the cemetery maintenance fee received in Shanghai to a designed joint named bank account with the Qingpu Funeral Association (青浦殯葬所) which carries variable-rate interest by reference to the People's Bank of China benchmark rate. This bank balance can be drawn annually with a cap based on the 20% of the cemetery maintenance costs incurred in the preceding year that are endorsed by the Qingpu Funeral Association, which will be used for general maintenance of the cemetery.

## 14. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the six months ended June 30, 2014:

|                                   | Deferred<br>income<br>RMB'000 | Tax losses<br>RMB'000 | Payroll<br>and welfare<br>payable<br>RMB'000 | Fair value<br>adjustment<br>RMB'000 | Undistributed<br>profits<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------------|-------------------------------|-----------------------|--|-------------------------------------|-------------------------------------|------------------|
|                                   |                               |                       |  | Note                                |                                     |                  |
| At January 1, 2013 (audited)      | 17,202                        | 78                    | 15,630                                       | (26,204)                            | (5,230)                             | 1,476            |
| Acquisition of subsidiaries       | —                             | —                     | —  | (5,496)                             | —                                   | (5,496)          |
| Credit (charge) to profit or loss | 1,199                         | 754                   | (1,040)                                      | 830                                 | (2,750)                             | (1,007)          |
| Transfer                          | —                             | —                     | —  | —                                   | 5,230                               | 5,230            |
| At June 30, 2013 (audited)        | 18,401                        | 832                   | 14,590                                       | (30,870)                            | (2,750)                             | 203              |
| Credit (charge) to profit or loss | 1,062                         | (216)                 | (3,576)                                      | 924                                 | 2,750                               | 944              |
| At December 31, 2013 (audited)    | <b>19,463</b>                 | <b>616</b>            | <b>11,014</b>                                | <b>(29,946)</b>                     | <b>—</b>                            | <b>1,147</b>     |
| Credit (charge) to profit or loss | <b>1,901</b>                  | <b>66</b>             | <b>(5,366)</b>                               | <b>1,434</b>                        | <b>—</b>                            | <b>(1,965)</b>   |
| At June 30, 2014 (unaudited)      | <b>21,364</b>                 | <b>682</b>            | <b>5,648</b>                                 | <b>(28,512)</b>                     | <b>—</b>                            | <b>(818)</b>     |

Note: Fair value adjustment mainly refers to revaluation of property and equipment, and cemetery assets upon the business combination arose from acquisition of subsidiaries

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 14. DEFERRED TAXATION – *continued*

For the purpose of presentation in the condensed consolidated statement of financial position, deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same legal entity and fiscal authority. The following is the analysis of the deferred tax balances for financial reporting purposes:

|                          | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--------------------------|--|--|
| Deferred tax assets      | 27,694   | 31,093                                       |
| Deferred tax liabilities | <b>(28,512)</b>                                      | (29,946)                                     |
|                          | <b>(818)</b>   | 1,147  |

The deferred tax balances have reflected the tax rates that are expected to apply in the respective years when the asset is realized or the liability is settled.

## 15. INVENTORIES

|              | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--------------|--|--|
| Burial Plots | 128,844  | 139,314                                      |
| Tombstone    | 36,196   | 41,144                                       |
| Others       | 5,995  | 2,222  |
|              | <b>171,035</b>                                       | 182,680                                      |

## 16. OTHER RECEIVABLES

|   | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|---|--|--|
| Prepayments and deposits to suppliers         | 13,404   | 14,285                                       |
| Prepayments and rental deposits on properties | 1,092  | 1,041  |
| Staff advances                                | 1,705  | 1,161  |
| Interest receivable                           | 11,519   | —  |
| Others  | 5,608  | 4,599  |
|   | <b>31,978</b>  | 21,086                                       |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 17. BANK BALANCES AND CASH

|  | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|--|--|
| Time deposits with original maturity of more than three months | <u>500,000</u>                                       | —  |
| Time deposits with original maturity of less than three months | 476,183  | 39,627                                       |
| Unrestricted bank balances and cash                            | <u>673,170</u>                                       | <u>1,504,385</u>                             |
| Cash and cash equivalents                                      | <u>1,149,353</u>                                     | <u>1,544,012</u>                             |
|  | <u><b>1,649,353</b></u>                              | <u><b>1,544,012</b></u>                      |

Bank balances and cash of the Group denominated in RMB, HK\$ and US\$ carry variable-rate interest as follows:

|                         | <b>June 30,<br/>2014<br/>RMB'000</b> | December 31,<br>2013<br>RMB'000 |
|-------------------------|--------------------------------------|---------------------------------|
| Interest rate per annum |                                      |                                 |
| – RMB                   | <b>0.35%-0.50%</b>                   | 0.35%-0.50%                     |
| – HK\$                  | <b>0.01%</b>                         | 0.01%                           |
| – US\$                  | <b>0.10%</b>                         | 0.10%                           |

As of June 30, 2014, the Group had several fixed-term deposits in banks (“Time Deposits”) totaling RMB976 million and with original maturities of six months or less. These Time Deposits earn fixed interest rates which range from 4.0% to 5.6% per annum.

The bank balances and cash that are denominated in currencies other than RMB are set out below:

|      | <b>June 30,<br/>2014<br/>RMB'000</b> | December 31,<br>2013<br>RMB'000 |
|------|--------------------------------------|---------------------------------|
| HK\$ | <u>176,098</u>                       | 293,590                         |
| US\$ | <u>40,797</u>                        | <u>39,786</u>                   |
|      | <u><b>216,895</b></u>                | <u><b>333,376</b></u>           |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 18. TRADE AND OTHER PAYABLES

|  | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|--|--|
| Trade payables                                     | 52,283   | 50,850                                       |
| Advances and deposits from customers               | 19,393   | 23,624                                       |
| Payables for acquisition of property and equipment | 8,899  | 8,216  |
| Salary, welfare and bonus payables                 | 41,097   | 63,310                                       |
| Other taxes payable                                | 5,026  | 6,749  |
| Other accrued expenses                             | 7,766  | 6,424  |
| Unpaid listing expense                             | —  | 10,358                                       |
| Others   | 1,218  | 1,790  |
|  | <b>135,682</b>                                       | <b>171,321</b>                               |

Advances and deposits from customers are in most cases received from customers before delivery of cemetery and tombstone is made.

The following is an aged analysis of trade payable presented based on the invoice date at the period end:

|                | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|----------------|--|--|
| 0 - 90 days    | 17,379   | 19,123                                       |
| 91 - 180 days  | 10,324   | 9,596  |
| 181 - 360 days | 13,159   | 7,662  |
| Over 361 days  | 11,421   | 14,469                                       |
|                | <b>52,283</b>  | <b>50,850</b>                                |

The average credit period on purchases of goods is 181 to 360 days.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 19. BORROWINGS

|   | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|---|--|--|
| Bank borrowings                           | <u>44,950</u>  | <u>39,050</u>                                |
| Secured by the Group's assets             | <b>39,950</b>  | 34,050                                       |
| Unsecured borrowings                      | <u>5,000</u>   | <u>5,000</u>                                 |
|   | <u>44,950</u>  | <u>39,050</u>                                |
| Guaranteed by an independent third party  | <b>5,000</b>   | 5,000  |
| Unguaranteed borrowings                   | <u>39,950</u>  | <u>34,050</u>                                |
|   | <u>44,950</u>  | <u>39,050</u>                                |
| Variable-rate borrowings                  | <u>44,950</u>  | <u>39,050</u>                                |
| Carrying amount repayable within one year | <u>44,950</u>  | <u>39,050</u>                                |

During the six-month period ended June 30, 2014, the Group entered into various borrowing agreements with banks to finance its business operations and expansion. Such borrowings were secured against the Group's buildings as disclosed in note 12.

The ranges of effective interest rates on the Group's bank borrowings are as follows:

|                          | <b>June 30,<br/>2014</b> | December 31,<br>2013 |
|--------------------------|--------------------------|----------------------|
| Effective interest rate: |                          |                      |
| Variable-rate borrowings | <b>6.00%-7.20%</b>       | 6.00% - 8.65%        |

The Group has variable-rate bank borrowings which carry interest at the People's Bank of China benchmark rate plus a premium.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 20. DEFERRED INCOME

Deferred income represents the portion of the revenue generated from the provision of burial services that has not been earned as revenue in accordance with the revenue recognition policy and the nature of the business.

|   | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|---|--|--|
| Carrying amount analyzed as:                |  |  |
| Amounts shown under current liabilities     | <b>14,568</b>  | 11,629                                       |
| Amounts shown under non-current liabilities | <b>153,811</b>                                       | 142,967                                      |
|   | <b>168,379</b>                                       | 154,596                                      |

During the six-month period ended June 30, 2014, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB7,284,000 (six-month period ended June 30, 2013: RMB5,798,000).

## 21. SHARE CAPITAL

|   | <b>Number<br/>of shares</b> | <b>Amount<br/>US\$</b> |
|---|-----------------------------|------------------------|
| Ordinary shares of US\$0.01 each                |                             |                        |
| Authorized:                                     |                             |                        |
| At January 1, 2013                              | 50,000                      | 50,000                 |
| Sub-division of authorized shares (note (a))    | 4,950,000                   | —                      |
| Increase in authorized share capital (note (a)) | <u>19,995,000,000</u>       | <u>199,950,000</u>     |
| At June 30, 2014 and December 31, 2013          | <u>20,000,000,000</u>       | <u>200,000,000</u>     |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 21. SHARE CAPITAL – *continued*

Issued and fully paid:

|  | Number<br>of shares  | Amount<br>US\$    | Shown in<br>the Financial<br>Information as<br>RMB'000 |
|--|----------------------|-------------------|--|
| At January 1, 2013   | 1                    | 1                 | —  |
| Sub-division of issued shares(note (a))                                  | 99                   | —                 | —  |
| Increase in issued share capital (note (b))                              | 9,900                | 99                | —  |
| Issue of shares by capitalization of<br>share premium account (note (c)) | 1,499,990,000        | 14,999,900        | 90,868   |
| Issue of shares by initial public offerings (note (d))                   | 500,000,000          | 5,000,000         | 30,290   |
| At December 31, 2013   | <u>2,000,000,000</u> | <u>20,000,000</u> | <u>121,158</u>   |
| Issue of shares by exercise of<br>over-allotment option (note (e))       | 75,000,000           | 750,000           | 4,531  |
| At June 30, 2014   | <u>2,075,000,000</u> | <u>20,750,000</u> | <u>125,689</u>   |

Note:

- (a) The initial authorized share capital of the Company was US\$50,000 divided into 50,000 shares of US\$1 each as at the date of incorporation. On July 9, 2013, the par value of the Company's shares was sub-divided from US\$1 per share to US\$0.01 per share, and as a result, the total authorized share capital and issued share capital of the Company increased to 5,000,000 shares and 100 shares of par value of US\$0.01 each, respectively. Pursuant to shareholders' written resolutions passed on the same date, the authorized share capital of the Company was further increased from 5,000,000 shares to 20,000,000,000 shares with par value of US\$0.01 each by the creation of an additional 19,995,000,000 shares.
- (b) On July 9, 2013, an additional 9,900 Company's shares were allotted and issued for cash consideration of US\$99, which were credited as fully paid.
- (c) On December 3, 2013, an additional 1,499,990,000 Company shares were allotted and issued, credited as fully paid at par value, by way of capitalization.
- (d) On December 19, 2013, the Company issued a total of 500,000,000 new ordinary shares of US\$0.01 each at the price of HK\$3.33 per share by means of initial public offering.
- (e) On January 9, 2014, the Company issued a total of 75,000,000 new ordinary shares of US\$0.01 each at the price of HK\$3.33 per share by means of full exercise of over-allotment option.
- (f) All the shares issued by the Company ranked *pari passu* in all respects.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 22. SHARE BASED COMPENSATION

### Share Option Scheme

The Company adopted its share option scheme on December 3, 2013 (the “Share Option Scheme”) which shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Directors. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Share Option Scheme, the Directors may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or shareholder of any member of the Group (the “Eligible Participants”).

Under the Share Option Scheme, the total number of shares available for issue under the Share Option Scheme was 200,000,000 shares representing 9.64% of the issued share capital of the Company.

For the period ended June 30, 2014 and as at June 30, 2014, no option was granted by the Company under the Share Option Scheme.

### Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) on March 10, 2013 for the primary purpose of motivating participants to optimise their performance and efficiency, and retaining the guarantees whose contributions are important to the Group’s long-term growth and development. Under the Pre-IPO Share Option Scheme, the Directors may grant up to 100,000,000 share options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the Pre-IPO Share Option Scheme, the Company granted 57,613,169 options underlying ordinary shares on August 8, 2013. The terms of the share options granted are:

- (1) All options granted are at an exercise price of RMB0.9 per share.
- (2) All options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manners:

| <b>Exercise Period</b>                | <b>Maximum percentage of share underlying the option exercisable</b> |
|---------------------------------------|--|
| From August 8, 2015 to August 8, 2017 | 50% of the total number of shares underlying the options granted.    |
| From August 8, 2016 to August 8, 2017 | 50% of the total number of shares underlying the options granted.    |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 22. SHARE BASED COMPENSATION – *continued*

Pre-IPO Share Option Scheme – *continued*

- (3) Each option granted under the Pre-IPO Share Option Scheme has a four-year exercise period from August 8, 2013.

The table below discloses movement of the Company's share options held by the Group's employees during the period:

|                                   | <b>Number of<br/>share options</b> |
|-----------------------------------|------------------------------------|
| Outstanding as at January 1, 2014 | 57,613,169                         |
| Granted during the period         | —                                  |
| Forfeited during the period       | —                                  |
| Exercised during the period       | —                                  |
| Expired during the period         | —                                  |
| Outstanding as at June 30, 2014   | 57,613,169                         |

The estimated fair value of share options granted was approximately RMB38,672,000. The fair value was calculated using the Binomial model.

The Group recognized the total expense of approximately RMB7,892,000 (for the six-month ended June 30, 2013: nil) for the six-month ended June 30, 2014 in relation to option granted by the Company under Pre-IPO Share Option Scheme.

## 23. OPERATING LEASES

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's outlets which fall due as follows:

|  | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|--|--|
| Within one year                        | <b>5,681</b>   | 5,243  |
| In the second to fifth years inclusive | <b>5,533</b>   | 7,356  |
| After five years                       | <b>90</b>  | 103  |
|  | <b><u>11,304</u></b>                                 | <u>12,702</u>                                |

Operating lease payments represent rentals payable by the Group for certain properties and land. The majority of the leases typically run for an initial period of two to five years.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 24. CAPITAL COMMITMENTS

|  | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|--|--|
| Capital expenditure in respect of the acquisition of property and equipment:         |  |  |
| – contracted for but not provided in the condensed consolidated financial statements | <u>172,218</u>                                       | <u>70,519</u>                                |
| – authorized but not yet contracted for  | <u>60,000</u>  | <u>60,000</u>                                |

## 25. RELATED PARTY DISCLOSURES

### Related party transactions

During the six months ended June 30, 2014 and 2013, the Group entered into the following transactions with a related party:

|   | <b>For the six months<br/>ended June 30,</b> |                              |
|---|--|------------------------------|
|   | <b>2014<br/>RMB'000<br/>(Unaudited)</b>      | 2013<br>RMB'000<br>(Audited) |
| Interest income generating from borrowings        |  |                              |
| China Zhongfu Industrial Co., Ltd. <sup>(*)</sup> | <u>—</u>                                     | <u>238</u>                   |

\* China Zhongfu Industrial Co., Ltd. is one of founding shareholders of the Group.

## 26. LOANS FROM NON-CONTROLLING INTERESTS

|  | <b>June 30,<br/>2014<br/>RMB'000<br/>(Unaudited)</b> | December 31,<br>2013<br>RMB'000<br>(Audited) |
|--|--|--|
| Shandong World Trade Center <sup>(**^)</sup> | <u>39,880</u>  | <u>38,173</u>                                |

\*\* The English names of the entity established in the PRC are translated for identification purpose only.

^ Shandong World Trade Center, an independent third party, holds 50% interest of Shandong Fu Shou Yuan Development Co., Ltd.

The loan from Shandong World Trade Center as at June 30, 2014, carried fixed interest rate at 7.80% (December 31, 2013: 9.18%) per annum.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

## 27. EVENTS AFTER THE END OF THE REPORTING PERIOD

On June 18, 2014, the Group entered into a sales and purchase agreement with three individuals, who are independent third parties, pursuant to which the Group will acquire an aggregate of 60% equity interest in Chongqing Baitayuan Funeral and Burial Development Co., Limited (“Target Company”) by way of initial capital injection and subsequent equity acquisition. The total consideration amounts to RMB110.69 million, excluding any applicable taxes payable or borne by the Group. In July 2014, a part of consideration amounting to RMB44.69 million has been paid and the acquisition is expected to be completed by August 30, 2014.

# DEFINITIONS

|  |  |
|--|--|
| “Anhui Zhongfude”                          | Anhui Province Zhongfude Power Saving Environmental Friendly Technology Company Limited* (安徽省中福德節能環保科技有限公司), a company established in the PRC and a subsidiary of the Company              |
| “associate(s)”                             | has the meaning ascribed to it under the Listing Rules   |
| “Audit Committee”                          | the audit committee of the Company   |
| “Board” or “Board of Directors”            | the board of Directors   |
| “CG Code”                                  | the Corporate Governance Code set out in Appendix 14 to the Listing Rules  |
| “China” or “PRC”                           | the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan                                   |
| “Chongqing Anle Services”                  | Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a company established in the PRC and a subsidiary of the Company  |
| “Chongqing Anle Funeral Services”          | Chongqing Anle Funeral Services Co., Ltd.* (重慶安樂殯儀服務有限公司), a company established in the PRC and a subsidiary of our Company  |
| “Chongqing Baitayuan”                      | Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a company established in the PRC  |
| “Company”, “Fu Shou Yuan”,<br>“us” or “we” | Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands  |
| “Director(s)”                              | the director(s) of the Company   |
| “EIT Law”                                  | the Law of the PRC on Enterprise Income Tax  |
| “GDP”                                      | gross domestic product   |
| “Global Offering”                          | the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013 |
| “Group”, “our Group”, “us” or “we”         | the Company and its subsidiaries   |
| “Hong Kong”                                | the Hong Kong Special Administrative Region of the PRC   |
| “HK\$”                                     | Hong Kong dollars, the lawful currency of Hong Kong  |
| “independent third party(ies)”             | individual(s) or entity(ies) who is (are) not considered connected person or associate of a connected person under the Listing Rules   |
| “Jinzhou Maoshan Anling”                   | Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a company established in the PRC and a subsidiary of the Company   |



# DEFINITIONS

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|-------------------------------|---|
| “Listing”                     | listing of the Shares on the Stock Exchange   |
| “Listing Rules”               | the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)        |
| “Model Code”                  | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules                         |
| “Nanchang Hongfu”             | Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a company established in the PRC and a subsidiary of the Company             |
| “Period Under Review”         | the six months ended June 30, 2014  |
| “Prospectus”                  | the prospectus of the Company dated December 9, 2013  |
| “RMB”                         | Renminbi yuan, the lawful currency of the PRC   |
| “SFO”                         | the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (as amended, supplemented or otherwise modified from time to time) |
| “Shandong FSY Development”    | Shandong Fu Shou Yuan Development Co., Ltd.* (山東福壽園發展有限公司), a company established in the PRC and a subsidiary of the Company                  |
| “Shandong World Trade Centre” | Shandong World Trade Centre* (山東世界貿易中心), a 50% shareholder of Shandong FSY Development  |
| “Shanghai Nanyuan”            | Shanghai Nanyuan Industrial Development Co., Ltd.* (上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company           |
| “Share(s)”                    | ordinary share(s) with a nominal value of US\$0.01 each in the share capital of the Company   |
| “Shareholder(s)”              | holder(s) of the Share(s)   |
| “Share Option Scheme”         | the share option scheme conditionally adopted by the Company on December 3, 2013.   |
| “sq.m.”                       | square meters   |
| “Stock Exchange”              | The Stock Exchange of Hong Kong Limited   |
| “%”                           | per cent.   |

\* Denotes English translation or transliteration of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.