

2015  
INTERIM REPORT



福寿园  
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

# Contents



Corporate Information 2

Chairman's Statement 4

Management Discussion and Analysis 5

Other Information 18

Independent Auditor's Report 27

Condensed Consolidated Statement of Profit or Loss  
and Other Comprehensive Income 28

Condensed Consolidated Statement of Financial Position 29

Condensed Consolidated Statement of Changes in Equity 31

Condensed Consolidated Statement of Cash Flows 32

Notes to the Condensed Consolidated Financial Statements 34

Definitions 58

# 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  
Mr. Wang Jisheng  
Mr. Ho Man

## 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

## **PRINCIPAL BANKERS**

Shanghai Pudong Development Bank  
Construction Bank of China  
Shanghai Rural Commercial Bank  
Citibank, N.A.

## **AUDITOR**

Deloitte Touche Tomatsu

## **STOCK CODE**

1448

## **WEBSITE**

<http://www.fsygroup.com>



# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the results of the Group for the six months ended June 30, 2015.

This is the second year since the Company listed on the Stock Exchange. The Group has continued to develop its core businesses and committed to the plans promised during the Global Offering. During the Period Under Review, the Group's revenue amounted to RMB587.6 million, an increase of 43.3% over the corresponding period in 2014. The Group's achievement in revenue growth for the first half of the year was primarily attributable to the organic growth of key businesses and our successful expansion strategy. During the Period Under Review, the gross margin of the Group maintained at 78.2%. The Group realized profit and comprehensive income attributable to shareholders of the Company of RMB158.8 million, representing an increase of approximately 23.2% from the corresponding period in 2014. The Board proposes an interim dividend of HK2.39 cents per share for 2015 to the Shareholders to reward all investors for their support.

During the Period Under Review, the Group has endeavored to improve service quality and constantly expanded its business network through acquisition of shareholdings, cooperative development, entrusted management, etc. In the first half year, the Group entered into agreement and completed acquisition of Anyang Tianshouyuan Cemetery (安陽天壽園) in Henan Province. Furthermore, the Group entered into cooperation agreement with Dafeng Funeral Home (江蘇省大豐市殯儀館) on the comprehensive funeral service center cooperation project in the city of Dafeng, Jiangsu Province. Currently the Group owns 13 cemeteries (including 2 under construction), and is running 9 funeral facilities. Besides, the Group is entrusted to manage 3 small size cemeteries. Our business has spanned across 14 cities in China. New members that joined Fu Shou Yuan Group since the second half of 2014 contributed total sales revenue of RMB85.0 million during the first half of 2015, representing 47.9% of the total year-on-year sales revenue growth of the first half year of 2015. At the same time, the Group has introduced Fu Shou Yuan's advance experience into the management and integration of these merged and acquired companies. The brand culture of Fu Shou Yuan is gradually facing the entire nation and our brand value is getting higher.

Meanwhile, leveraging on the favorable policy which encourages marketization in death care services industry as well as the opportunities brought about by the prevailing trend of aging population and accelerating urbanization, the Group has provided more superior services and rich options on cultural consumption to clients. The Group targets to replace the traditional concept on death care services with a diversified model of modern service industry. The Group has engaged in business innovation to offer a rich diversity of quality services to the market, so as to improve the Group's overall gross profit and to further optimize our profitability.

Looking ahead, the Group will further develop its core businesses, and attach great importance to management, operation, optimization and innovation. The Group proactively embraces the future trend while inheriting Chinese culture traditions, and is determined to maintain a unique Fu Shou Yuan culture through adopting the most advanced technologies and first-class concepts in the world. Moreover, based on the strong capability in market consolidation, the Group targets to introduce its brand and advance experiences to the entire nation so as to create a clear business landscape. The Group plans to enhance the synergy between the Group and the merged and acquired subsidiaries by further consolidation, which is expected to improve the overall earnings of the Group as well as laying a solid foundation for future outward expansion. By adhering to our people-oriented philosophy, taking its root in culture, being innovative and pragmatic, and building a harmonious relation with the environment, the Group will consistently pursue sustainable development for achieving win-win of profit growth and social benefits, so as to deliver the best performance to investors.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET OVERVIEW

“Filial piety” has long been a Chinese traditional virtue. Chinese people have always valued the death care culture and developed various funeral and memorial customs across the nation, which serves as the keystone for the death care industry to subsist and develop in mainland China. Benefited from China’s huge population base and the cultural heritage of “filial piety”, the death care service market in China, on which the Group focused, has developed into one of the largest death care markets in the world.

Along with an aging population, accelerating pace of urbanization, continuous marketization, increasing disposable income per capita, strong promotion by the government on Chinese traditional culture and heritage generated large demand on high quality death care services and enabled the death care service industry in China to develop into one of the most stable and fastest growing industry with huge market potential.

## BUSINESS REVIEW

Our Group is the largest death care services provider in the PRC. Ever since listing, the Group adheres to the double-barreled development strategies of “organic growth” and “external expansion”. We are devoted to provide high-quality and customized death care services. We respect and serve for lives, help our customers vent their grief and find their emotional attachment, and honor the final journey of life with inherent equality and dignity.

In terms of “external expansion”, the Group mainly expands its business network through mergers & acquisitions and entrusted management. In the first half of 2015, the Group signed and completed acquisition of Anyang Tianshouyuan Cemetery in Anyang City, Henan Province, and entered into cooperation agreement with Dafeng Funeral Home in Dafeng City, Jiangsu Province on jointly developing Dafeng Funeral Services Center. Regarding the acquisition projects signed in 2014, we have completed acquisition of Guanlingshan Cultural Cemetery (觀陵山藝術陵園) and Wuyuan Wanshoushan Cemetery (婺源萬壽山陵園) in the first half of 2015. As at June 30, 2015, the Group owns up to 13 cemeteries (including both operating and under construction), and is running up to 9 funeral facilities. At the same time, we are trying to expand in an innovative manner; for example, we gain revenue by providing management services to three small cemeteries through entrusted management. New members that joined the Group in the latter half of 2014 and first half of 2015 contributed total sales revenue of RMB85.0 million during the first half of 2015, representing 47.9% of the total year-on-year sales revenue growth of the first half year of 2015. The expanding cemetery and funeral business laid a solid foundation for the Group’s future development.

The Group is a large-scale death care enterprise with strong integration capability. In the first half of 2015, the Group utilized its edges on branding, teambuilding and death care ideologies to comprehensively integrate the new members of our Group, and it turns out to be fruitful. We will continue to strengthen integration with our own strengths to enable the new members meet the existing standards of our Group.

The Guangde Environmental-friendly Cremation Machine Production Base in Guangde City, Anhui Province, has completed and commenced operation in late February 2015. Although it is still in its initial development stage, the new environmental requirements on cremation machines in Mainland China have generated huge market demand. It is believed that the cremation machine business will make considerable contributions to the Group’s revenue in the near future.

# MANAGEMENT DISCUSSION AND ANALYSIS

With regards to “organic growth”, the Group continues to put effort into the landscaping and cultural constructions of existing cemeteries, improve service quality, and explore new service products and models actively. The Group strives to construct cemeteries into urban cultural parks, upgrade traditional death care industry into modern service industry that caters to customers’ needs, and provides customized services and a richer selection to customers. Besides, we embody humanistic spirit in order to replace the simple traditional funeral process, which earns us high recognition from customers for our quality services. The Group persists to learn the advanced concepts and management experience of the death care industry, and maintains sound operation of this life community that carries memories and emotions.

Also, the Group keeps enhancing internal management, strengthens budget control and internal management system, and reinforces employee incentive scheme. In March 2015, the Group implemented the third batch of share-based compensation scheme that encourages senior management and employees to further enhance the Group’s internal cohesion and employee motivation.

To sum up, the Group’s business has achieved steady growth in the first half of 2015 as compared to the same period last year. During this half year, the Group sold a total of 11,940 tombs and provided 7,480 funeral services and recorded total revenue of RMB587.6 million, representing an increase of 43.3% as compared to the same period in 2014; total net profit of RMB200.8 million, representing an increase of 24.1% as compared to the same period in 2014 and net profit attributable to our shareholders of RMB158.8 million, representing an increase of 23.2% as compared to the same period in 2014.

## 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 Period Under Review:

	Six Months Ended			
	June 30, 2015		June 30, 2014	
	Revenue (RMB’000)	% of total revenue	Revenue (RMB’000)	% of total revenue
Burial services	516,001	87.8%	347,569	84.7%
Funeral services	67,582	11.5%	52,794	12.9%
Auxiliary services	4,030	0.7%	9,782	2.4%
<b>Total</b>	<b>587,613</b>	<b>100.0%</b>	<b>410,145</b>	<b>100.0%</b>

Our revenue increased by RMB177.5 million, or 43.3%, from RMB410.1 million for the six months ended June 30, 2014 to RMB587.6 million for the six months ended June 30, 2015. This increase was primarily driven by a 48.5%, or RMB168.4 million, increase in revenue from burial services, a 28.0%, or RMB14.8 million, increase in revenue from funeral services.

Our cremation machine manufacturing base was accomplished early this year. Although the cremation machine business is just at start-up stage, it started to generate revenue. During the Period Under Review, the revenue from sale of cremation machine amounted to RMB3.1 million, which was included in the auxiliary services segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

Our cemeteries and funeral facilities are strategically located in major cities across 9 provinces in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region for the Period Under Review:

	Six Months Ended			
	June 30, 2015		June 30, 2014	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai	302,167	51.8%	247,039	61.7%
Henan	44,362	7.6%	23,097	5.8%
Chongqing	48,055	8.2%	31,099	7.8%
Anhui	50,226	8.6%	43,049	10.7%
Shandong	20,454	3.5%	19,732	4.9%
Liaoning	92,291	15.8%	29,472	7.4%
Fujian	11,074	1.9%	5,966	1.5%
Zhejiang	1,202	0.2%	909	0.2%
Jiangxi	13,752	2.4%	—	—
<b>Total</b>	<b>583,583</b>	<b>100.0%</b>	<b>400,363</b>	<b>100.0%</b>

We have been focusing on providing top quality burial and funeral services to our customers, 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, we completed the acquisition of the controlling equity in Chongqing Baitayuan, Meilin Century Cemetery, Guanlingshan Cultural Cemetery, Wuyuan Wanshoushan Cemetery, and Anyang Tianshouyuan Cemetery since the 2nd half of year 2014. These new subsidiaries contributed revenue of RMB85.0 million for the six months ended June 30, 2015, representing 21.2% of the revenue from burial and funeral services for the six months ended June 30, 2014. Excluding this effect, we achieved organic revenue growth of RMB98.2 million, or 24.5% as compared with the six months ended June 30, 2014, from the then existing cemeteries and funeral facilities for the six months ended June 30, 2015.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BURIAL SERVICES

We derived a substantial portion of our revenue from our burial services, which represented 87.8% (six months ended June 30, 2014: 84.7%) of our total revenue for the six months ended June 30, 2015. 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 98.5% of our revenue from burial services for the six month period ended June 30, 2015. 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 Months Ended							
	June 30, 2015				June 30, 2014			
	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	388	289,198	112,209	21.7%	329	264,343	86,969	25.0%
- Artistic	4,898	35,585	174,294	33.8%	1,316	93,959	123,650	35.6%
- Traditional	3,222	44,313	142,778	27.7%	1,480	45,791	67,771	19.5%
- Lawn	451	60,419	27,249	5.3%	485	50,763	24,620	7.1%
- Green	2,107	3,793	7,991	1.5%	368	12,851	4,729	1.4%
- Indoor	874	7,595	6,638	1.3%	1,527	3,703	5,654	1.6%
- Other burial related services	—	—	37,333	7.2%	—	—	26,892	7.7%
	<b>11,940</b>		<b>508,492</b>	<b>98.5%</b>	<b>5,505</b>		<b>340,285</b>	<b>97.9%</b>
<b>Cemetery maintenance services</b>	—	—	<b>7,509</b>	<b>1.5%</b>	—	—	<b>7,284</b>	<b>2.1%</b>
<b>Total Revenue From Burial Services</b>	<b>11,940</b>		<b>516,001</b>	<b>100.0%</b>	<b>5,505</b>		<b>347,569</b>	<b>100.0%</b>

We sold 6,242 burial plots, excluding 2,203 plots (1,246 plots for the six months ended June 30, 2014) charged with very low prices in Haigang Fu Shou Yuan for public welfare purpose and 3,495 plots (110 plots for the six months ended June 30, 2014) sold by Henan Fu Shou Yuan to accommodate the tomb relocation funded by local government in Henan Province, for the six months ended June 30, 2015, representing 50.4% increase as compared with 4,149 plots sold for the six months ended June 30, 2014. The newly acquired subsidiaries recorded 2,239 plots, representing majority of the total increase of units sold. Furthermore, the selling prices of burial plots of each cemetery vary according to local market conditions. Therefore, average selling price for each type of burial is affected by change in geographical mix of burial plots sold between the periods under review. The average selling price of burial plots, excluding those plots for public welfare and tomb relocation purpose as mentioned above, was approximately RMB71,273 per unit for the six months ended June 30, 2015. It is decreased by RMB3,606 per unit, or 4.8%, from approximately RMB74,879 per unit for the six months ended June 30, 2014. The main reason is the lower average selling price from the newly acquired subsidiaries, which was approximately RMB35,700 per unit for the six months ended June 30, 2015. Excluding this effect, the average selling price from the then existing cemeteries was approximately RMB91,150 per unit, representing an increase of RMB16,271 per unit, or 21.7% for the six months ended June 30, 2015 as compared with the six months ended June 30, 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

We have eleven cemeteries currently in operation, and have been deriving revenue from them. We achieved remarkable 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 Months Ended			
	June 30, 2015		June 30, 2014	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	214,395	41.5%	176,011	50.6%
Haigang Fu Shou Yuan	83,260	16.1%	67,263	19.4%
Henan Fu Shou Yuan	44,348	8.6%	23,097	6.6%
Shandong Fu Shou Yuan	20,454	4.0%	19,732	5.7%
Hefei Dashushan Cultural Cemetery	37,094	7.2%	31,993	9.2%
Jinzhou Maoshan Anling	34,085	6.6%	29,473	8.5%
Chongqing Baitayuan	12,373	2.4%	—	—
Meilin Century Cemetery	9,736	1.9%	—	—
Guanlingshan Cultural Cemetery	58,205	11.3%	—	—
Wuyuan Wanshoushan Cemetery	2,037	0.4%	—	—
Anyang Tianshouyuan Cemetery	14	0.0%	—	—
<b>Total Revenue from Burial Services</b>	<b>516,001</b>	<b>100.0%</b>	<b>347,569</b>	<b>100.0%</b>

## COST OF SALES AND SERVICES

Cost of sales and services consists primarily of the costs we incur 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 Months Ended			
	June 30, 2015		June 30, 2014	
	Cost of sales and services (RMB'000)	% of total cost of sales and services	Cost of sales and services (RMB'000)	% of total cost of sales and services
Burial services	104,083	81.1%	62,596	74.8%
Funeral services	19,048	14.8%	14,013	16.7%
Auxiliary services	5,259	4.1%	7,123	8.5%
<b>Total</b>	<b>128,390</b>	<b>100.0%</b>	<b>83,732</b>	<b>100.0%</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

Our cost of sales and services increased by RMB44.7 million, or 53.3%, from RMB83.7 million for the six months ended June 30, 2014 to RMB128.4 million for the six months ended June 30, 2015. This increase was primarily due to a 66.3% increase in cost of sales and services for burial services, a 35.9% increase in cost of sales and services for funeral services. The increases were mainly due to our business growth in burial and funeral services.

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

	Six Months Ended			
	June 30, 2015		June 30, 2014	
	Cost of sales and services (RMB'000)	% of total cost of sales and services	Cost of sales and services (RMB'000)	% of total cost of sales and services
Tombstone cost	31,881	30.6%	22,078	35.3%
Land cost	12,691	12.2%	6,611	10.6%
Development cost	27,559	26.5%	12,924	20.6%
Cemetery maintenance cost	5,783	5.6%	5,651	9.0%
Others	26,169	25.1%	15,332	24.5%
<b>Total</b>	<b>104,083</b>	<b>100.0%</b>	<b>62,596</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 our operating staff costs, cost of caskets and other ancillary costs.

Our cost of sales and services for auxiliary services represents the various expenditures incurred in relation to manufacturing and sale of cremation machines and other services, including materials purchased, direct labor, manufacturing overheads, outsourcing costs, and other related costs.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB132.8 million, or 40.7%, from approximately RMB326.4 million for the six months ended June 30, 2014 to approximately RMB459.2 million for the six months ended June 30, 2015. We maintained a relatively high 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. Our overall gross profit margin achieved was 78.2% for the six months ended June 30, 2015 while the overall gross profit margin for the six months ended June 30, 2014 was 79.6%. This was mainly due to the effect of relatively lower margin of newly acquired subsidiaries and negative margin of cremation machine business as its current start-up stage.

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the Period Under Review:

	Six Months Ended			
	June 30, 2015		June 30, 2014	
	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)
Burial services	411,918	79.8%	284,973	82.0%
Funeral services	48,534	71.8%	38,781	73.5%
Auxiliary services	(1,229)	(30.5)%	2,659	27.2%
<b>Total</b>	<b>459,223</b>	<b>78.2%</b>	<b>326,413</b>	<b>79.6%</b>

## 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 Months Ended	
	June 30, 2015 (RMB'000)	June 30, 2014 (RMB'000)
Interest income	19,401	25,716
Government grant	5,852	—
Management service income	3,084	—
Exchange gain	93	4,855
Others	154	243
<b>Total</b>	<b>28,584</b>	<b>30,814</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

Our interest income decreased by RMB6.3 million from RMB25.7 million for the six months ended June 30, 2014 to RMB19.4 million for the six months ended June 30, 2015, mainly due to lower average bank balances as a result of our accelerated merger and acquisition progress since the 2nd half of year 2014 and decreased interest rate as the central bank of China announced to decrease the RMB interest rates during the Period Under Review.

We received a government grant in the amount of RMB5.9 million for the six months ended June 30, 2015, which represented unconditional subsidies from the local government to encourage and reward our contribution to the local economy. We did not receive such grant from government for the six months ended June 30, 2014.

We are approached to provide management services to certain cemeteries by their owners because of our operation and management expertise in death care industry. During the period, we received net income of RMB3.1 million for such services provided.

## DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 36.5% of our total revenue for the six months ended June 30, 2015 (38.7% for the six months ended June 30, 2014), increased by RMB56.1 million, or 35.4%, from RMB158.6 million for the six months ended June 30, 2014 to RMB214.7 million for the six months ended June 30, 2015. The increase was mainly as the result of: (i) the operating expenses from newly acquired subsidiaries, amounting to approximately RMB22.6 million, (ii) the effect of higher amortization of approximately RMB7.5 million on stock option granted in August 2014 and March 2015, and higher staff costs due to the new hiring, and (iii) general variable expenditures increase to support the business growth.

## FINANCE COSTS

Finance costs for the six months ended June 30, 2015 consist of interest expense of RMB2.3 million on bank loans, and interest expenses of RMB2.1 million on loans from non-controlling interests.

Interest expense on loans from non-controlling interests refers to our interest expense in connection with: (i) the shareholder's loans borrowed by our subsidiary, Shandong Fu Shou Yuan, from Shandong World Trade Centre. Shandong Fu Shou Yuan is jointly invested by our Group and Shandong World Trade Centre. Our Group and Shandong World Trade Centre jointly provide funding to Shandong Fu Shou Yuan, for its land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentage in addition to the registered capital; and (ii) the loans borrowed by our subsidiary, Meilin Century Cemetery, from Nanchang Municipal Public Investing & Holding Co., Ltd. before our acquisition to pay off its debt. Nanchang Municipal Public Investing & Holding Co., Ltd. is one of the minority shareholders of our subsidiary, Nanchang Hongfu. We have repaid this borrowing in May 2015.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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. Our interest income received on bank deposits by our subsidiary in Hong Kong is free from any income tax according to the Hong Kong tax rules. The income tax expenses increased by approximately RMB35.7 million, or 110.8%, from approximately RMB32.2 million for the six months ended June 30, 2014 to approximately RMB67.9 million for the six months ended June 30, 2015. The effective corporate income tax rate for the six months ended June 30, 2015 increased to 25.3%, from that of 16.6% for the six months ended June 30, 2014. It is mainly due to: (i) the increased profit before taxation as a result of business growth, (ii) the reversal of certain prior year tax provision during the six months ended June 30, 2014 while no such reversal is made during the Period Under Review, and (iii) the decreased interest income received by our subsidiary in Hong Kong as discussed above.

## 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 RMB29.9 million, or 23.2%, from approximately RMB128.9 million for the six months ended June 30, 2014 to approximately RMB158.8 million for the six months ended June 30, 2015. This increase was primarily due to: (i) the contributions from newly acquired subsidiaries as well as our strong organic revenue growth in our previously existing cemeteries and funeral facilities; and (ii) the relatively stable and high gross margin. The increase was however partially offset by increased operating costs due to the business growth and the higher effective corporate tax rate.

## CASH FLOW

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

	Six Months Ended	
	June 30, 2015 (RMB'000)	June 30, 2014 (RMB'000)
Net cash generated from (used in)		
– operating activities	166,404	139,359
– investing activities	(120,490)	(511,443)
– financing activities	(50,081)	(22,575)
<b>Total</b>	<b>(4,167)</b>	<b>(394,659)</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

We generated our cash from operating activities primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for the 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, finance costs, the effects of changes in working capital and taxation. For the six months ended June 30, 2015, our net cash generated from operating activities amounted to approximately RMB166.4 million, representing 19.4% increase as compared to that for the six months ended June 30, 2014. It mainly included the operating cash inflows before movement in working capital of approximately RMB294.4 million, but partially offset by (i) the increase of other working capital of approximately RMB83.3 million due to the business growth and the settlement of certain payables near Chinese new year, and (ii) income tax paid of approximately RMB44.7 million.

For the six months ended June 30, 2015, our net cash used in investing activities was approximately RMB120.5 million. It was primarily due to: (i) considerations, deposits and advances of approximately RMB105.0 million to acquire or to be entrusted to manage new cemeteries and funeral facilities, (ii) our additions to and deposits for property and equipments of approximately RMB34.4 million, mainly in connection with: (a) the landscaping and facility construction and upgrade in certain newly acquired subsidiaries since the 2nd half of year 2014, (b) the construction of new customer services centers in Haigang Fu Shou Yuan and Jinzhou Maoshan Anlin, and (c) general landscaping, facilities and equipments upgrade in other subsidiaries within the group. It was partially offset by the interests received during the Period Under Review, amounting to approximately RMB18.9 million.

Our net cash used in financing activities amounted to approximately RMB50.1 million for the six months ended June 30, 2015. It was primarily due to: (i) final dividends paid to the owners of the Company of RMB32.4 million related to the year ended December 31, 2014, (ii) dividends paid to non-controlling interests of RMB42.0 million, (iii) net increase of bank loans of RMB26.7 million, and (iv) interest paid of approximately RMB3.5 million for our borrowings.

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2015, we had bank balances and cash of approximately RMB1,292.6 million (December 31, 2014: RMB1,296.8 million). 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, bank borrowings, and funds from other financing channels.

We had outstanding bank borrowings of approximately RMB74.6 million as at June 30, 2015, within which there are borrowings of RMB51.9 million repayable within one year, of RMB5.0 million repayable within two years, of RMB6.0 million repayable within three years, of RMB6.0 million repayable within four years, and of RMB5.7 million repayable within five years. We had bank borrowing facilities of approximately RMB175 million not withdrawn as at June 30, 2015. These borrowings were denominated in RMB and were subject to floating interest rates ranged from 5.3% to 9.9%. Meanwhile, Shandong Fu Shou Yuan, one of our subsidiary, also had an outstanding loan balance of approximately RMB36.2 million with interest rate of 6.0% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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, 2015 was 4.5% (December 31, 2014: 4.3%). Our operation has been lightly leveraged because of our good operating cash generating capability. Although we expect that our capital expenditure in the following month of the year 2015 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 RMB. However, certain bank balances are denominated in foreign currencies, which exposed us to foreign currency risk. As at June 30, 2015, cash and cash equivalents held in RMB, HK\$ and US\$ accounted for approximately 89.9%, 7.9% and 2.2% 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. The management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended June 30, 2015, we completed the following three acquisitions:

In early January 2015, we completed the acquisition of 70% equity interest in Guanlingshan Cultural Cemetery for a cash sum of RMB279.3 million through equity interest subscription. Guanlingshan Cultural Cemetery holds parcels of land for cemetery development and woodland purposes measuring approximately 3,494 mu (approximately 2.33 million sq.m.) in total. It has been providing burial services in the cities of Shenyang, Tieling and Fushun in Liaoning Province.

In early February 2015, we completed the acquisition of 75% equity interest in Wuyuan Wanshoushan Cemetery from its then existing shareholders for a cash consideration of RMB49.3 million, including the taxes related to this transaction. Wuyuan Wanshoushan Cemetery mainly provides burial services, funeral services and cremation services in Wuyuan County, Jiangxi Province. It holds land use right to a site measuring approximately 164,000 sq.m. It is the only service provider, granted with a license for cremation, for funeral and cemetery operation within the Wuyuan County.

In early June 2015, we completed the acquisition of 80% equity interest in Anyang Tianshouyuan Cemetery from its then existing shareholders for a cash consideration of RMB42.4 million. Anyang Tianshouyuan Cemetery holds land use right for a parcel of land measuring approximately 65,733 sq.m. in Anyang City, Henan Province. It will provide burial services in Anyang City.

We also entered into a cooperation agreement with government-operated funeral home of Dafeng City in Jiangsu Province, in relation to the establishment of the Dafeng Funeral Service Center, an integrated, one-stop provider for the sale of funeral products, family vigils and farewell services in Dafeng City. The cooperation is now still in the start-up stage.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2015, we had 1,571 full-time employees (December 31, 2014: 1,307 full-time employees) stationed in 14 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 bonus 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 subsidiaries, land, other investments, property and equipment in an amount of approximately RMB68.9 million as at June 30, 2015 (December 31, 2014: RMB111.6 million).

We expect our capital expenditure in the following months of the year 2015 and afterwards will tremendously increase as we are actively seeking for and approached by many industry consolidation opportunities.

## ASSETS PLEDGED

As at June 30, 2015, we pledged buildings, lands and other long-term assets with carrying values of approximately RMB18.3 million (December 31, 2014: RMB6.0 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, 2015, we did not have any contingent liabilities.

## 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 23,600 sq.m. to generate revenue from sale of burial plots. However, our total saleable area as at June 30, 2015 increased by approximately 180,000 sq.m. to approximately 1.57 million sq.m. from that of 1.39 million sq.m. as at December 31, 2014, because we completed to acquire the controlling equity interest in Guanlingshan Cultural Cemetery, Wanshoushan Cemetery, and Anyang Tianshouyuan Cemetery during the Period Under Review.

When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for burial plots, such as the land areas in connection with the business centre, office building, landscaping, and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time. We currently expect the remaining land available at our existing cemeteries to be able to sustain our group's operations for at least 20 years based on our total saleable area of all our cemeteries and the land area of the burial plots to be taken up in year 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Going forward, in view of the still immature market regulation, the Group will conduct appropriate and highly cost-effective mergers and acquisitions through large-scale investigations and studies and in strict compliance with laws and regulations. After the acquisitions, by leveraging its quality management and operation, Fu Shou Yuan will proceed with cultural packaging and quality enhancement to increase the added value of the graveyards acquired so as to increase the overall level of quality and quantity of products and services, as well as to make overall headway towards standardization and personalization. The next year will be another year for Fu Shou Yuan to implement ambitious plans and expand its operations. The Group will unleash its market integration potential to generate considerable returns for investors. Meanwhile, being a model enterprise, the Group will continue to lead the modernization reform of the death care business in China, promote the healthy development of the national death care culture in terms of humanity, charity and environmental protection and commit itself to operating Fu Shou Yuan, a living entity that carries memories and emotions, in an appropriate way, so as to reward all investors with the best results.



# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at June 30, 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (i) Interest in the Shares

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

Note:

1. Mr. 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 have been granted options under the Share Option Scheme and the Pre-IPO Share Option Scheme, details of which are set out in "Share Option Scheme" and "Pre-IPO Share Option Scheme".

Save as disclosed above, as at June 30, 2015, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of 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 and 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 Board. 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 Board may offer to grant an option to any directors or employees, or any advisors, consultants, suppliers, customers or shareholders of any members of the Group. For the six months ended June 30, 2015, 50,000,000 options were granted by the Company under the Share Option Scheme. As at the date of this interim report, the total number of Shares in respect of which options are available for issue under the Share Option Scheme was 108,400,000 Shares representing 5.20% of the total issued share capital of the Company.

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme during the six months ended June 30, 2015:

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options granted on March 19, 2015	Options outstanding as at January 1, 2015	Options exercised during the six months ended June 30, 2015	Options lapsed/ cancelled during the six months ended June 30, 2015	Options outstanding as at June 30, 2015	Exercisable period
<i>Directors</i>									
Bai Xiaojiang	August 5, 2014	4.14	4.01	—	1,000,000	—	—	1,000,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	1,000,000	—	—	1,000,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2018 to March 18, 2019
Tan Leon Li-an	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2017 to August 4, 2024
Wang Jisheng	August 5, 2014	4.14	4.01	—	1,000,000	—	—	1,000,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	1,000,000	—	—	1,000,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2018 to March 18, 2019
Lin Hung Ming (also known as Lin Hon Min)	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2017 to August 4, 2024
Lu Hesheng	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	250,000	—	—	—	250,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	250,000	—	—	—	250,000	March 19, 2018 to March 18, 2019
Huang James Chih-Cheng	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	200,000	—	—	200,000	August 5, 2017 to August 4, 2024

## OTHER INFORMATION

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options granted on March 19, 2015	Options outstanding as at January 1, 2015	Options exercised during the six months ended June 30, 2015	Options lapsed/ cancelled during the six months ended June 30, 2015	Options outstanding as at June 30, 2015	Exercisable period
Chen Qunlin	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
Luo Zhuping	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
Ho Man	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
Wu Jianwei	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	100,000	—	—	100,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
Chief Financial Officer									
Luk Wai Keung (Note 1)	August 5, 2014	4.14	4.01	—	200,000	—	(200,000)	—	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	200,000	—	(200,000)	—	August 5, 2017 to August 4, 2024
Other employees of									
the Group (in aggregate)	August 5, 2014	4.14	4.01	—	17,600,000	—	—	17,600,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	—	17,600,000	—	—	17,600,000	August 5, 2017 to August 4, 2024
	March 19, 2015	3.126	3.16	21,150,000	—	—	—	21,150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	21,150,000	—	—	—	21,150,000	March 19, 2018 to March 18, 2019
<b>Total</b>				<b>50,000,000</b>	<b>42,000,000</b>	<b>—</b>	<b>(400,000)</b>	<b>91,600,000</b>	

Note 1: Luk Wai Keung has resigned on April 30, 2015 and his options have lapsed on May 30, 2015.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2015.

# OTHER INFORMATION

## 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 interim 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 effective period from August 8, 2013 to August 7, 2017.

As at the date of this interim 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 the details of the outstanding options granted under the Pre-IPO Share Option Scheme:

Name of Grantees	Date of grant	Exercise price per share (RMB)	Options outstanding as at January 1, 2015	Options	Options	Options	Options outstanding as at June 30, 2015	Exercisable period
				granted during the six months ended June 30, 2015	exercised during the six months ended June 30, 2015	lapsed/ cancelled during the six months ended June 30, 2015		
<i>Directors</i>								
Bai Xiaojiang	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2016 to August 7, 2017
Wang Jisheng	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2016 to August 7, 2017
<i>Substantial Shareholders</i>								
<i>Ge Qiansong</i>								
(Senior Management)	August 8, 2013	0.9	1,438,938.5	—	—	—	1,438,938.5	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,438,938.5	—	—	—	1,438,938.5	August 8, 2016 to August 7, 2017
<i>Other employees</i>								
(in aggregate)	August 8, 2013	0.9	23,914,194	—	—	—	23,914,194	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	23,914,194	—	—	—	23,914,194	August 8, 2016 to August 7, 2017
<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, 2015, 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, 2015, 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 of Shares	Approximate percentage of the issued share capital of the Company (%)
FSG Holding Corporation ("FSG Holding")	Beneficial owner	Long position	525,000,000	25.30%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	525,000,000	25.30%
Chief Union Investments Limited ("Chief Union")	Beneficial owner (Note 2)	Long position	483,000,000	23.28%
Fulechuan International Group Co., Ltd. ("Fulechuan")	Interest in a controlled corporation (Note 3)	Long position	483,000,000	23.28%
China Zhongfu Industrial Co., Ltd.* ("Zhongfu")	Interest in a controlled corporation (Note 4)	Long position	483,000,000	23.28%
Shanghai Hongfu Investment Development Co., Ltd.* ("Hongfu")	Interest in a controlled corporation (Notes 4, 5, 6)	Long position	483,000,000	23.28%
Shanghai Zhongmin Elderly Affairs Development Service Centre* ("NGO 1")	Interest in a controlled corporation (Note 5)	Long position	483,000,000	23.28%
Shanghai Zhongmin Elderly Affairs Consultancy Service Centre* ("NGO 2")	Interest in a controlled corporation (Note 6)	Long position	483,000,000	23.28%
UBS Trustees (BVI) Limited	Trustee	Long position	218,700,000	10.54%
Double Riches Investments Limited ("Double Riches")	Beneficial owner	Long position	119,445,000	5.76%
Ge Qiansong	Interest in a controlled corporation (Note 7)	Long position	119,445,000	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, 2015, 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, 2015.

During the six months ended June 30, 2015, 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 and the relevant employees of the Company were noted by the Company throughout the six months ended June 30, 2015.

# OTHER INFORMATION

## CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

Change of information in respect of the directors of the Company pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

- Mr. Huang James Chih-Cheng has been a general manager of Chongqing Stone Tan Financial Leasing Co., Ltd since 1 April, 2015 until to date;
- Mr. Ho Man has served as an independent non-executive director of China Fire Safety Enterprise Group Limited since 29 July, 2015 until to date.

Save as disclosed above and having all reasonable enquiry made, the Company is not aware of any other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of 2014 annual report to the date of 2015 interim report of the Company.

## 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. As of 30 June 2015, we had used approximately HK\$48.6 million towards acquiring new lands and approximately HK\$708.2 million, including certain funds from our daily operation, towards mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK\$19.7 million has been used for the expansion of our sales network. The remaining net proceeds are intended to be applied in the manner consistent with that set out in the Prospectus and relevant announcements made.

On August 11, 2015, the Board has resolved to reallocate the proposed use of net proceeds accruing to the Group from the Global Offering by combining the allocations (1) to develop new cemeteries by way of land acquisitions; (2) to set up new funeral facilities; and (3) for mergers and acquisitions into one consolidated pool of funds, representing approximately 87% of the net proceeds to be used either by way of new lands acquisition, or funeral facilities acquisitions or mergers and acquisitions, as the opportunity arises.

Save for the aforesaid changes, there is no other change of the use of net proceeds from the Global Offering.

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.39 cents per Share for the six months ended June 30, 2015, 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 Wednesday, September 23, 2015. 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 Friday, September 11, 2015.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, September 9, 2015 to Friday, September 11, 2015, 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 Tuesday, September 8, 2015.

# OTHER INFORMATION

## 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, 2015.

## REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial report of the Group for the six months ended June 30, 2015 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, 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, and the Group’s unaudited interim results for the six months ended June 30, 2015.

## 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 28 to 57, which comprise the condensed consolidated statement of financial position as of June 30, 2015 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 11, 2015

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

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	NOTES	For the six months ended	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue	5	587,613	410,145
Cost of sales and services		(128,390)	(83,732)
Gross profit		459,223	326,413
Other income and gains, net	6	28,584	30,814
Distribution and selling expenses		(97,591)	(76,560)
Administrative expenses		(117,108)	(82,059)
Finance costs	7	(4,460)	(4,649)
Profit before taxation	8	268,648	193,959
Income tax expense	9	(67,879)	(32,195)
Profit and total comprehensive income for the period		200,769	161,764
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Company		158,827	128,913
Non-controlling interests		41,942	32,851
		200,769	161,764
		<b>RMB cents</b>	<b>RMB cents</b>
Earnings per share – Basic	11	7.7	6.2
– Diluted	11	7.5	6.1



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2015

	NOTES	June 30, 2015 RMB'000 (Unaudited)	December 31, 2014 RMB'000 (Audited)
<b>Non-current assets</b>			
Property and equipment	12	343,561	271,304
Intangible assets		13,732	13,709
Prepaid lease payment		23,504	13,174
Cemetery assets	13	942,071	628,648
Restricted deposits	14	27,000	23,730
Investment in a joint venture		30,000	30,000
Deposit for acquisition of subsidiaries	15	30,470	293,800
Deferred tax assets	16	32,753	33,723
Goodwill	26	180,236	94,459
		<u>1,623,327</u>	<u>1,402,547</u>
<b>Current assets</b>			
Inventories	17	279,146	215,733
Trade and other receivables	18	50,192	20,083
Bank balances and cash	19	1,292,590	1,296,757
		<u>1,621,928</u>	<u>1,532,573</u>
<b>Current liabilities</b>			
Trade and other payables	20	214,036	258,437
Deferred income	22	14,726	13,097
Dividends payable	10	15,200	—
Loans from non-controlling interests	29	—	21,396
Income tax liabilities		145,840	122,846
Borrowings	21	51,950	34,950
		<u>441,752</u>	<u>450,726</u>
<b>Net current assets</b>		<u>1,180,176</u>	<u>1,081,847</u>
<b>Total assets less current liabilities</b>		<u>2,803,503</u>	<u>2,484,394</u>
<b>Non-current liabilities</b>			
Borrowings	21	22,660	—
Deferred income	22	186,688	166,545
Loans from non-controlling interests	29	36,172	38,173
Deferred tax liabilities	16	80,768	67,364
		<u>326,288</u>	<u>272,082</u>
<b>Net assets</b>		<u>2,477,215</u>	<u>2,212,312</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2015

	NOTES	June 30, 2015 RMB'000 (Unaudited)	December 31, 2014 RMB'000 (Audited)
<b>Capital and reserves</b>			
Share capital	23	125,689	125,689
Reserves		<u>1,999,333</u>	<u>1,857,584</u>
Equity attributable to owners of the Company		<u>2,125,022</u>	1,983,273
Non-controlling interests		<u>352,193</u>	<u>229,039</u>
<b>Total equity</b>		<u><u>2,477,215</u></u>	<u><u>2,212,312</u></u>

The condensed consolidated financial statements on page 28 to 57 were approved and authorized for issue by the Board of Directors on August 11, 2015 and are signed on its behalf by:

**Bai Xiao Jiang**  
*DIRECTOR*

**Wang Ji Sheng**  
*DIRECTOR*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	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, 2014 (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 at premium 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
<b>At June 30, 2014 (Unaudited)</b>	<b>125,689</b>	<b>1,275,317</b>	<b>84,667</b>	<b>64,665</b>	<b>26,784</b>	<b>14,468</b>	<b>310,090</b>	<b>1,901,680</b>	<b>157,237</b>	<b>2,058,917</b>
Profit and total comprehensive income for the period	—	—	—	—	—	—	101,459	101,459	21,836	123,295
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	50,286	50,286
Dividends recognized as distributions	—	(32,143)	—	—	—	—	—	(32,143)	—	(32,143)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(320)	(320)
Share based compensation	—	—	—	—	—	12,277	—	12,277	—	12,277
Transfer to statutory reserve	—	—	—	10,822	—	—	(10,822)	—	—	—
<b>At December 31, 2014 (Audited)</b>	<b>125,689</b>	<b>1,243,174</b>	<b>84,667</b>	<b>75,487</b>	<b>26,784</b>	<b>26,745</b>	<b>400,727</b>	<b>1,983,273</b>	<b>229,039</b>	<b>2,212,312</b>
Profit and total comprehensive income for the period	—	—	—	—	—	—	158,827	158,827	41,942	200,769
Capital injection from non-controlling interest	—	—	—	—	—	—	—	—	24,555	24,555
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	113,857	113,857
Dividends recognized as distributions	—	—	—	—	—	—	(32,423)	(32,423)	—	(32,423)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(57,200)	(57,200)
Share based compensation	—	—	—	—	—	15,345	—	15,345	—	15,345
<b>At June 30, 2015 (Unaudited)</b>	<b>125,689</b>	<b>1,243,174</b>	<b>84,667</b>	<b>75,487</b>	<b>26,784</b>	<b>42,090</b>	<b>527,131</b>	<b>2,125,022</b>	<b>352,193</b>	<b>2,477,215</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	For the six months ended June 30,	
NOTE	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	268,648	193,959
Adjustments for:		
Finance costs	4,460	4,649
Interest income	(19,401)	(25,716)
Depreciation of property and equipment	11,292	8,930
Amortization of cemetery assets	13,832	5,670
Amortization of intangible assets	404	177
Net gain on disposal of property and equipment	(162)	(225)
Expense recognized in respect of equity-settled share based payments	15,345	7,892
Operating cash flows before movements in working capital	294,418	195,336
Increase in restricted deposits	(3,270)	(234)
Decrease (increase) in cemetery assets and inventories	1,558	(67)
(Increase) decrease in trade and other receivables	(26,957)	1,977
Decrease in trade and other payables	(69,868)	(25,965)
Increase in deferred income	15,272	13,783
Cash generated from operations	211,153	184,830
Income taxes paid	(44,749)	(45,471)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>166,404</b>	<b>139,359</b>
<b>INVESTING ACTIVITIES</b>		
Additions to and deposits paid for property and equipment	(34,412)	(25,799)
Purchase of intangible assets	(151)	(114)
Proceeds on disposal of property and equipment	232	273
Deposit for acquisition of a subsidiary	15 (25,970)	—
Acquisition of subsidiaries	25 (76,725)	—
Interest received	18,936	14,197
Advance to business partner	(2,400)	—
Placement of time deposits	—	(500,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(120,490)</b>	<b>(511,443)</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

	For the six months ended June 30,	
NOTE	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	69,610	44,950
Repayment of bank borrowings	(42,950)	(39,050)
Investment from non-controlling interest	24,555	—
Repayments to non-controlling interests	(23,397)	(1,492)
Interest paid	(3,476)	(1,449)
Dividends paid to non-controlling interests	(42,000)	(40,433)
Dividends paid to owners of the Company	(32,423)	(159,500)
Proceeds from issue of ordinary shares	—	184,757
Payment of listing related expense	—	(10,358)
	<u>(50,081)</u>	<u>(22,575)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
	(50,081)	(22,575)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	(4,167)	(394,659)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		
	<u>1,296,757</u>	<u>1,544,012</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>		
17	<u><u>1,292,590</u></u>	<u><u>1,149,353</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 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 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, 2015 are the same as those followed in the preparation of the Group’s annual financial statement for the year ended December 31, 2014.

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 IAS19	Defined Benefit Plans: Employee Contributions
Amendments to IFRS	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRS	Annual Improvements to IFRSs 2011-2013 Cycle

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.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's financial instruments, including the loans and receivables (including trade and other receivables, bank balances and cash, restricted deposit) and financial liabilities (including trade and other payables, borrowings, loans from no-controlling interests, dividends payable) are recorded at amortized cost. The directors of the Company (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.

## 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, 2015:</i>						
Segment revenue	508,492	7,509	516,001	67,582	4,030	587,613
Segment profit (loss)	410,192	1,726	411,918	48,534	(1,229)	459,223
Other income and gains, net						28,584
Distribution and selling expenses						(97,591)
Administrative expenses						(117,108)
Finance costs						(4,460)
Profit before taxation						268,648

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 5. SEGMENT INFORMATION – *continued*

### Segment revenues and results – *continued*

	Burial services					Total RMB'000
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000		Funeral services RMB'000	Auxiliary services RMB'000	
		Sub-total 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						<u>193,959</u>

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. 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 months ended June 30, 2015 and 2014. 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, 2015

## 6. OTHER INCOME AND GAINS, NET

	For the six months ended June 30,	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Other income:		
Interest income on bank deposits	19,401	25,716
Management service income	3,084	—
Government grants	5,852	—
	<u>28,337</u>	<u>25,716</u>
Net gains and losses:		
Net gain on disposal of property and equipment	162	225
Donation	(26)	(20)
Compensation	—	47
Exchange gain	93	4,855
Others	18	(9)
	<u>247</u>	<u>5,098</u>
Other income and gains, net	<u><u>28,584</u></u>	<u><u>30,814</u></u>

## 7. FINANCE COSTS

	For the six months ended June 30,	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Interest expense on borrowings wholly repayable within five years	2,330	1,459
Interest expense on loans from non-controlling interests wholly repayable within five years (note 29)	2,130	3,190
	<u>4,460</u>	<u>4,649</u>
Total finance costs	<u><u>4,460</u></u>	<u><u>4,649</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	82,598	73,702
Retirement benefits scheme contributions	6,619	4,631
Share based payments expenses	15,345	7,892
	<u>104,562</u>	<u>86,225</u>
Total staff costs		
Auditors' remuneration	1,000	1,000
Depreciation of property and equipment	11,292	8,930
Cost of inventories recognized as an expense	74,868	42,759
Amortization of intangible assets (included in administrative expenses)	404	177
Amortization of cemetery assets (included in cost of sales and services)	13,832	5,670
Operating lease rentals	5,923	4,436
	<u>5,923</u>	<u>4,436</u>

## 9. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("PRC EIT")	67,717	30,230
Deferred tax (note 16)	162	1,965
	<u>67,879</u>	<u>32,195</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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 9. INCOME TAX EXPENSE – *continued*

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 months ended June 30, 2015.

## 10. DIVIDENDS

During the current interim period, a final dividend of HK1.95 cents (equivalent to approximately RMB1.56 cents) per share in respect of the year ended 31 December 2014 (2013: nil) was declared and paid to the shareholders of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$40,462,500 (equivalent to approximately RMB32,423,000) (2013: nil).

Subsequent to the end of the current interim period, the Directors have proposed that an interim dividend of HK2.39 cents per share (2014: HK1.95 cents) will be paid to the shareholders of the Company whose names appear in the Register of Members on September 11, 2015.

## 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:

	<b>For the six months ended June 30,</b>	
	<b>2015 (Unaudited)</b>	2014 (Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u><b>158,827</b></u>	<u>128,913</u>
<b>Number of shares</b>		
Number of ordinary shares (2014: weighted average number of ordinary shares) for the purpose of basic earnings per share	<b>2,075,000,000</b>	2,071,270,718
Effect of dilutive potential ordinary shares:		
Share options	<u><b>39,367,501</b></u>	<u>36,601,532</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>2,114,367,501</b></u>	<u>2,107,872,250</u>

The computation of diluted earnings per share for the six months ended June 30, 2015 does not assume the exercise of some of the Company’s options because their exercise would result in an increase in earnings per share attributable to the owners of the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 12. PROPERTY AND EQUIPMENT

During the period, the Group acquired property and equipment of approximately RMB84,681,000 (six months ended June 30, 2014: RMB25,132,000), among which RMB53,025,000 was acquired through acquisition of subsidiaries for business expansion.

During the period, the Group disposed of property, plant and equipment with carrying amount of approximately RMB70,000 (six months ended June 30, 2014: RMB48,000) for cash proceeds of approximately RMB232,000 (six months ended June 30, 2014: RMB273,000) resulting in a gain on disposal of approximately RMB162,000 (six months ended June 30, 2014: RMB225,000).

As at June 30, 2015, the Group pledged buildings with carrying values of approximately RMB6,441,000 (December 31, 2014: RMB8,000), 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, 2015, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB18,897,000 (December 31, 2014: RMB12,009,000) had not been obtained.

## 13. CEMETERY ASSETS

The Group's cemetery assets increased by RMB313 million from RMB629 million as at December 31, 2014 to RMB942 million as at June 30, 2015. The increase was mainly due to the acquisition of Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd., Wuyuan Wanshoushan Lingyuan Co., Ltd. and Anyang Wulong Civil Service Co., Ltd. in this interim period. Details of the acquisitions are set out in Note 25 to the condensed consolidated financial statements.

## 14. 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.

## 15. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES

During the interim period, the Group completed acquisition of Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd. and Wuyuan Wanshoushan Lingyuan Co., Ltd. on January 9, 2015 and February 13, 2015, respectively. Therefore, deposit for acquisition of these two subsidiaries paid in the year of 2014, amounting to RMB289,300,000 has been transferred out.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 16. DEFERRED TAXATION

The following are the major deferred tax assets (liability) recognized by the Group and movements thereon during the six months ended June 30, 2015:

	Deferred income RMB'000	Tax losses RMB'000	Payroll and welfare payable RMB'000	Fair value adjustment RMB'000 Note	Total RMB'000
At January 1, 2014 (audited)	19,463	616	11,014	(29,946)	1,147
Credit (charge) to profit or loss	1,901	66	(5,366)	1,434	(1,965)
At June 30, 2014 (unaudited)	21,364	682	5,648	(28,512)	(818)
Acquisition of subsidiaries	—	1,357	1,309	(40,110)	(37,444)
Credit (charge) to profit or loss	(1,291)	(1,565)	6,219	1,258	4,621
At December 31, 2014 (audited)	<b>20,073</b>	<b>474</b>	<b>13,176</b>	<b>(67,364)</b>	<b>(33,641)</b>
Acquisition of subsidiaries	—	327	1,000	(15,539)	(14,212)
Credit (charge) to profit or loss	<b>2,528</b>	<b>(22)</b>	<b>(4,803)</b>	<b>2,135</b>	<b>(162)</b>
At June 30, 2015 (unaudited)	<b>22,601</b>	<b>779</b>	<b>9,373</b>	<b>(80,768)</b>	<b>(48,015)</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

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:

	June 30, 2015 RMB'000 (Unaudited)	December 31, 2014 RMB'000 (Audited)
Deferred tax assets	32,753	33,723
Deferred tax liabilities	(80,768)	(67,364)
	<b>(48,015)</b>	<b>(33,641)</b>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 17. INVENTORIES

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Burial Plots	190,268	149,957
Tombstone	74,914	55,052
Others	13,964	10,724
	<u>279,146</u>	<u>215,733</u>

## 18. TRADE AND OTHER RECEIVABLES

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Trade receivable (note 2)	23,127	—
Prepayments and deposits to suppliers	586	—
Prepayments and rental deposits on properties	2,015	1,443
Entrusted loan (note 1)	14,400	12,000
Staff advances	5,232	1,380
Others	4,832	5,260
	<u>50,192</u>	<u>20,083</u>

Note 1: The Group has advanced a loan amounting to RMB14,400,000 (2014: RMB12,000,000) to a business partner for a project with the Group.

Note 2: The aging analysis of trade receivables presented based on the invoice date at the end of reporting period is as follows:

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
0 - 90 days	23,127	—
	<u>23,127</u>	<u>—</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 19. BANK BALANCES AND CASH

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

	<b>June 30, 2015 RMB'000</b>	December 31, 2014 RMB'000
Interest rate per annum		
– RMB	<b>0.35%-4.95%</b>	0.35%-4.80%
– HK\$	<b>0.01%</b>	0.01%
– US\$	<b>0.05%</b>	0.10%

As of June 30, 2015, the Group had several fixed-term deposits in banks (“Time Deposits”) totaling approximately RMB195.5 million and with original maturities of six months or less. These Time Deposits earn fixed interest rates which range from 3.5% to 4.95% per annum.

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

	<b>June 30, 2015 RMB'000</b>	December 31, 2014 RMB'000
HK\$	<b>101,783</b>	138,208
US\$	<b>28,875</b>	28,879
	<b><u>130,658</u></b>	<u>167,087</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 20. TRADE AND OTHER PAYABLES

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Trade payables	<b>82,443</b>	92,110
Advances and deposits from customers	<b>34,368</b>	45,879
Payables for acquisition of property and equipment	<b>7,667</b>	5,664
Salary, welfare and bonus payables	<b>47,678</b>	77,245
Other accrued expenses	<b>10,366</b>	8,952
Consideration for acquisition of a subsidiary	—	12,196
Others	<b>31,514</b>	16,391
	<b>214,036</b>	258,437

Advances and deposits from customers are mainly 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, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
0 - 90 days	<b>32,618</b>	32,748
91 - 180 days	<b>12,696</b>	12,009
181 - 360 days	<b>17,776</b>	23,277
Over 361 days	<b>19,353</b>	24,076
	<b>82,443</b>	92,110

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, 2015

## 21. BORROWINGS

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Bank borrowings	<b>74,610</b>	34,950
Secured by the Group's assets	<b>69,610</b>	29,950
Guaranteed by an independent third party	<b>5,000</b>	5,000
	<b>74,610</b>	34,950
Due within one year	<b>51,950</b>	34,950
Due after one year	<b>22,660</b>	—
	<b>74,610</b>	34,950

As at June 30, 2015, the Group pledged buildings with carrying values of approximately RMB6,441,000 (December 31, 2014: RMB8,000), pledged cemetery assets with carrying values of approximately RMB8,824,000 (December 31, 2014: RMB5,949,000), pledged prepaid lease payment with carrying values of approximately RMB3,061,000 (December 31, 2014: nil), 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.

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

	<b>June 30, 2015</b>	December 31, 2014
Effective interest rate:		
Fixed-rate borrowings	<b>6.00%-9.90%</b>	N/A
Variable-rate borrowings	<b>5.30%-6.61%</b>	6.00%-7.20%

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 22. 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, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Carrying amount analyzed as:		
Amounts shown under current liabilities	<b>14,726</b>	13,097
Amounts shown under non-current liabilities	<b>186,688</b>	166,545
	<b><u>201,414</u></b>	<u>179,642</u>

During the six months ended June 30, 2015, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB7,509,000 (six months ended June 30, 2014: RMB7,284,000).

## 23. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount US\$</b>	
Ordinary shares of US\$0.01 each			
Authorized:			
At June 30, 2015, December 31, 2014 and January 1, 2014	<u>20,000,000,000</u>	<u>200,000,000</u>	
Issued and fully paid:			
	<b>Number of shares</b>	<b>Amount US\$</b>	<b>Shown in the Financial Information as RMB'000</b>
At January 1, 2014	2,000,000,000	20,000,000	121,158
Issue of shares by exercise of over-allotment option (note (a))	<u>75,000,000</u>	<u>750,000</u>	<u>4,531</u>
At December 31, 2014 and June 30, 2015	<u>2,075,000,000</u>	<u>20,750,000</u>	<u>125,689</u>

Note:

- (a) 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 in relation to the initial public offering in December 2013.
- (b) 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, 2015

## 24. SHARE BASED COMPENSATION

### Share Option Scheme

The Company adopted a 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.

On March 19, 2015, the Company granted 50,000,000 share options to the Directors and employees of the company under the following terms:

- (1) All options granted are at an exercise price of HKD 3.126 per share.
- (2) All options granted can only be exercised in the following manners:

<b>Exercise Period</b>	<b>Maximum percentage of share underlying the option exercisable</b>
From March 19, 2017 to March 18, 2019	50% of the total number of shares underlying the options granted.
From March 19, 2018 to March 18, 2019	50% of the total number of shares underlying the options granted.

The fair values of the options granted on March 19, 2015, which were determined at the dates of grant using the Binomial model, were HKD23,103,000 (equivalent to approximately RMB18,020,000).

The following assumptions were used to calculate the fair values of share options:

Grant date share price	HK\$3.10
Exercise price	HK\$3.126
Expected volatility	21.43%
Option life	4 years
Dividend yield	1.67%
Risk-free interest rate	1.08%
Forfeiture rate	4.20%

The fair value at grant date is RMB0.36 per share. The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Director's best estimate. Change in variable and assumptions may result in changes in the fair value of the options.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 24. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

Set out below are details of movements of the outstanding options granted under the Share Option Scheme during the period ended June 30, 2015:

	Date of grant	Exercise price per Share (HK\$)	Options outstanding balance as at January 1, 2015	Number of options			Options outstanding as at June 30, 2015
				Issued during the six months ended June 30, 2015	Exercised during the six months ended June 30, 2015	Forfeited during the six months ended June 30, 2015	
<b>Directors</b>							
Bai Xiaojiang	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	March 19, 2015	3.126	—	3,000,000	—	—	3,000,000
Tan Leon Li-an	August 5, 2014	4.14	400,000	—	—	—	400,000
Wang Jisheng	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	March 19, 2015	3.126	—	3,000,000	—	—	3,000,000
Lin Hung Ming	August 5, 2014	4.14	400,000	—	—	—	400,000
Lu Hesheng	August 5, 2014	4.14	400,000	—	—	—	400,000
	March 19, 2015	3.126	—	500,000	—	—	500,000
Huang James Chih-Cheng	August 5, 2014	4.14	400,000	—	—	—	400,000
Chen Qunlin	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Luo Zhuping	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Ho Man	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Wu Jianwei	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
			6,400,000	7,700,000	—	—	14,100,000
Senior Management	August 5, 2014	4.14	7,700,000	—	—	(400,000)	7,300,000
	March 19, 2015	3.126	—	9,100,000	—	—	9,100,000
Other employees	August 5, 2014	4.14	27,900,000	—	—	—	27,900,000
	March 19, 2015	3.126	—	33,200,000	—	—	33,200,000
Total			<u>42,000,000</u>	<u>50,000,000</u>	<u>—</u>	<u>(400,000)</u>	<u>91,600,000</u>
Exercisable at June 30, 2015							<u>—</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 24. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

The Group recognized the total expense of approximately RMB7,453,000 (for the six months ended June 30, 2014: nil) for the six months ended June 30, 2015 in relation to option granted by the Company under Share Option Scheme.

### Pre-IPO Share Option Scheme

The Company also 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.

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the period ended June 30, 2015:

	Date of grant	Exercise price per Share (RMB)	Options outstanding balance as at January 1, 2015	Number of options			Options outstanding as at June 30, 2015
				Issued during the six months ended June 30, 2015	Exercised during the six months ended June 30, 2015	Forfeited during the six months ended June 30, 2015	
<b>Directors</b>							
Bai Xiaojiang	August 8, 2013	0.9	3,453,452	—	—	—	3,453,452
Wang Jisheng	August 8, 2013	0.9	3,453,452	—	—	—	3,453,452
			6,906,904	—	—	—	6,906,904
Senior Management	August 8, 2013	0.9	11,876,037	—	—	—	11,876,037
Other employees	August 8, 2013	0.9	38,830,228	—	—	—	38,830,228
Total			57,613,169	—	—	—	57,613,169
Exercisable at June 30, 2015							—

The Group recognized the total expense of approximately RMB7,892,000 (for the six months ended June 30, 2014: RMB7,892,000) for the six months ended June 30, 2015 in relation to option granted by the Company under Pre-IPO Share Option Scheme.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 25. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of 70% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd. (Guanlingshan Cultural Cemetery)

On November 13, 2014, Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership), a wholly-owned subsidiary of the Group, entered into an agreement with all other equity holders of Guanlingshan Cultural Cemetery, pursuant to which Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership) agree to acquire an aggregate of 70% equity interest in the Guanlingshan Cultural Cemetery for a cash consideration of RMB279,300,000. Guanlingshan Cultural Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on January 9, 2015.

The net assets acquired in the transaction, and the goodwill arising on a provisional basis, are as follows:

Net assets acquired:	RMB'000
Property and equipment	44,322
Intangible assets	4,740
Prepaid lease payment	119
Cemetery assets	248,944
Inventories	66,100
Bank balances and cash	254,644
Trade and other payables	(276,000)
Borrowing	(5,000)
Deferred tax	(6,362)
	<hr/>
	331,507
Non-controlling interests	(99,452)
Goodwill	47,245
	<hr/>
Satisfied by:	
Cash consideration paid in 2014	279,300
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Less: bank balances and cash acquired	254,644
	<hr/>
	(254,644)
	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 25. ACQUISITION OF SUBSIDIARIES – *continued*

### (a) Acquisition of 70% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd. (Guanlingshan Cultural Cemetery) – *continued*

The non-controlling interests 30% in Guanlingshan Cultural Cemetery recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired. Goodwill arose in the acquisition of Guanlingshan Cultural Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Guanlingshan Cultural Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the interim period is approximately RMB12,054,000 attributable to Guanlingshan Cultural Cemetery. Revenue for the interim period includes approximately RMB58,205,000 is attributable to Guanlingshan Cultural Cemetery.

Had the acquisition of Guanlingshan Cultural Cemetery been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 June 2015 would have been approximately RMB58,205,000, and the amount of the profit for the interim period from continuing operations would have been approximately RMB12,018,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Guanlingshan Cultural Cemetery been acquired at the beginning of the interim period, the Directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of acquisition.

### (b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery)

On December 18, 2014, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, entered into an agreement with all other equity holders of Wuyuan Wanshoushan Cemetery, pursuant to which Shanghai FSY Industry Development agreed to acquire an aggregate of 75% equity interest in the Wuyuan Wanshoushan Cemetery for a cash consideration of RMB49,339,000. Wuyuan Wanshoushan Cemetery is engaged in sale of burial plots and was acquired as part of the Group’s expansion. The acquisition was completed on February 13, 2015.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 25. ACQUISITION OF SUBSIDIARIES – *continued*

### (b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery) – *continued*

The net assets acquired in the transaction, and the goodwill arising on a provisional basis, are as follows:

Net assets acquired:	RMB'000
Property and equipment	6,359
Prepaid lease payment	537
Cemetery assets	28,209
Inventories	831
Other receivables	738
Bank balances and cash	10
Trade and other payables	(3,570)
Borrowing	(8,000)
Deferred tax	(7,471)
	<u>17,643</u>
Non-controlling interests	(4,411)
Goodwill	<u>36,107</u>
Satisfied by:	
Cash consideration	<u>49,339</u>
Paid in 2014	10,000
Paid upon completion of the acquisition	<u>39,339</u>
Net cash outflow arising on acquisition:	
Cash consideration in paid upon completion of the acquisition	39,339
Less: bank balances and cash acquired	<u>10</u>
	<u>39,329</u>

The non-controlling interests 25% in Wuyuan Wanshoushan Cemetery recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired. Goodwill arose in the acquisition of Wuyuan Wanshoushan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Wuyuan Wanshoushan Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the interim period is approximately RMB1,000 attributable to Wuyuan Wanshoushan Cemetery. Revenue for the interim period includes approximately RMB3,456,000 is attributable to Wuyuan Wanshoushan Cemetery.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 25. ACQUISITION OF SUBSIDIARIES – *continued*

- (b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery) – *continued*

Had the acquisition of Wuyuan Wanshoushan Cemetery been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 June 2015 would have been approximately RMB4,217,000, and the amount of the profit for the interim period from continuing operations would have been approximately RMB22,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Wuyuan Wanshoushan Cemetery been acquired at the beginning of the interim period, the Directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of acquisition.

- (c) Acquisition of 80% equity interest in Anyang Wulong Civil Service Co., Ltd. (Anyang Tianshouyuan Cemetery)

On May 4, 2015, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, entered into an agreement with all other equity holders of Anyang Tianshouyuan Cemetery, pursuant to which Shanghai FSY Industry Development agree to acquire an aggregate of 80% equity interest in the Anyang Tianshouyuan Cemetery for a cash consideration of RMB42,400,000. Anyang Tianshouyuan Cemetery is engaged in sale of burial plots and was acquired as part of the Group’s expansion. The acquisition was completed on June 1, 2015.

The net assets acquired in the transaction, and the goodwill arising on a provisional basis, are as follows:

Net assets acquired:	RMB'000
Property and equipment	2,344
Cemetery assets	47,891
Inventories	251
Trade and other payables	(137)
Deferred tax	(380)
	<hr/>
	49,969
Non-controlling interests	(9,994)
Goodwill	2,425
	<hr/>
Satisfied by:	
Cash consideration	42,400
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash consideration in paid	42,400
Less: bank balances and cash acquired	—
	<hr/> <hr/>
	42,400

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 25. ACQUISITION OF SUBSIDIARIES – *continued*

### (c) Acquisition of 80% equity interest in Anyang Wulong Civil Service Co., Ltd. (Anyang Tianshouyuan Cemetery) – *continued*

The non-controlling interests 20% in Anyang Tianshouyuan Cemetery recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired. Goodwill arose in the acquisition of Anyang Tianshouyuan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Anyang Tianshouyuan Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the loss for the interim period is approximately RMB219,000 attributable to Anyang Tianshouyuan Cemetery. Revenue for the interim period includes approximately RMB14,000 is attributable to Anyang Tianshouyuan Cemetery.

Had the acquisition of Anyang Tianshouyuan Cemetery been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 June 2015 would have been approximately RMB14,000, and the amount of the loss for the interim period from continuing operations would have been approximately RMB228,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Anyang Tianshouyuan Cemetery been acquired at the beginning of the interim period, the Directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of acquisition.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 26. GOODWILL

The movement of goodwill as at June 30, 2015 and December 31, 2014 are as follows:

	<b>June 30, 2015 RMB'000</b>	December 31, 2014 RMB'000
COST		
At beginning	94,459	28,102
Arising on acquisition of subsidiaries	85,777	66,357
	<u>180,236</u>	<u>94,459</u>

The carrying amounts of goodwill as at June 30, 2015 and December 31, 2014 are as follows:

	<b>June 30, 2015 RMB'000</b>	December 31, 2014 RMB'000
Shanghai Nanyuan	9,595	9,595
Jinzhou Maoshan Anling	3,738	3,738
Henan FSY Industrial	14,769	14,769
Chongqing Baitayuan	47,458	47,458
Nanchang FSY	18,899	18,899
Guanlingshan Cultural Cemetery (as defined in note 25(a))	47,245	—
Wuyuan Wanshoushan Cemetery (as defined in note 25(b))	36,107	—
Anyang Tianshouyuan Cemetery (as defined in note 25(c))	2,425	—
	<u>180,236</u>	<u>94,459</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 27. 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, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Within one year	3,905	6,448
In the second to fifth years inclusive	9,833	5,129
After five years	1,037	73
	<u>14,775</u>	<u>11,650</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.

## 28. CAPITAL COMMITMENTS

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property and equipment:		
– contracted for but not provided in the condensed consolidated financial statements	<u>24,607</u>	<u>26,300</u>
– authorized but not yet contracted for	<u>—</u>	<u>30,204</u>
Capital expenditure in respect of the acquisition of subsidiaries:		
– contracted for but not provided in the condensed consolidated financial statements	<u>44,330</u>	<u>85,300</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2015

## 29. LOANS FROM NON-CONTROLLING INTERESTS

	<b>June 30, 2015 RMB'000 (Unaudited)</b>	December 31, 2014 RMB'000 (Audited)
Shandong World Trade Center	<b>36,172</b>	38,173
Nanchang Municipal Public Investing & Holding Co., Ltd.	<b>—</b>	21,396
	<b>36,172</b>	59,569

The loan from Shandong World Trade Center as at June 30, 2015, carried fixed interest rate at 6% (December 31, 2014: 7.8%) per annum.

As at June 30, 2015 and December 31, 2014, Shandong World Trade Center has confirmed that it shall not demand repayment of the amount due to it within the twelve months from each of the year end. Accordingly, the amount is shown under non-current as at June 30, 2015 and December 31, 2014.

During the current period, the Group paid RMB1,146,000 and RMB984,000 (six months period ended June 30, 2014: RMB3,190,000 and nil) in connection to the loans obtained from Shandong World Trade Center and Nanchang Municipal Public Investing & Holding Co., Ltd, respectively.

# DEFINITIONS

“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Wulong Civil Service Co., Ltd.* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“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 limited company established under the laws of 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 limited company established under the laws of the PRC and a subsidiary of the Company
“Chongqing Baitayuan”	a cemetery in Yongquan of Chongqing Province and operated by Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Company”, “Fu Shou Yuan”, “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
“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”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Guanlingshan Cultural Cemetery”	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Haigang Fu Shou Yuan”	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by Shanghai Nanyuan, a company established in the PRC and a subsidiary of the Company



# DEFINITIONS

“Hefei Dashushan Cultural Cemetery”	a cemetery in Hefei of Anhui Province and operated by Hefei Dashushan Culture Cemetery Co., Ltd.* (合肥大蜀山文化陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Henan Fu Shou Yuan”	a cemetery in Longhu Town, Zhengzhou of Henan Province (河南省新鄭市龍湖鎮) and operated by Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Jinzhou Maoshan Anling”	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“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)
“Meilin Century Cemetery”	a cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
“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 limited company established under the laws of the PRC and a subsidiary of the Company
“Period Under Review”	the six months ended June 30, 2015
“Prospectus”	the prospectus of the Company dated December 9, 2013
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shandong Fu Shou Yuan”	Shandong Fu Shou Yuan Development Co., Ltd.* (山東福壽園發展有限公司), a limited company established under the laws of 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 Fu Shou Yuan
“Shanghai Fu Shou Yuan”	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company

# DEFINITIONS

“Shanghai Nanyuan”	Shanghai Nanyuan Industrial Development Co., Ltd.* (上海南院實業發展有限公司), a limited company established under the laws of 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)
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Wuyuan Wanshoushan Cemetery”	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“%”	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.