



福壽園國際集團

FU SHOU YUAN INTERNATIONAL GROUP



福壽園國際集團有限公司  
FU SHOU YUAN INTERNATIONAL GROUP LIMITED

Incorporated in the Cayman Islands with limited liability

2017  
INTERIM REPORT

Stock code: 01448

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# CORPORATE INFORMATION



## BOARD OF DIRECTORS

### Executive Directors

Mr. Bai Xiaojiang (*Chairman*)

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

Mr. Wang Jisheng (*Chief Executive*)

### Non-executive Directors

Mr. Ma Xiang

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. Wang Jisheng

Mr. Chen Qunlin

Mr. Ho Man

Mr. Luo Zhuping

## 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

### Notes:

<sup>(1)</sup> With effect from March 17, 2017, Mr. Zhao Yu has resigned as joint company secretary of the Company and Mr. Zhang Jingming remains as sole company secretary of the Company.

<sup>(2)</sup> With effect from March 17, 2017, Mr. Zhang Jingming has been appointed in place of Mr. Zhao Yu as an authorized representative of the Company.

## COMPANY SECRETARY

Mr. Zhang Jingming<sup>(1)</sup>

## AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang

Mr. Zhang Jingming<sup>(2)</sup>

## REGISTERED OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

## HEADQUARTERS

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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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands



# CORPORATE INFORMATION

## 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 Tohmatsu

## 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 Company and its subsidiaries for the six months ended June 30, 2017.

In the first half of 2017, Chinese national economy continued the good momentum from last year. Dynamic enhancement appeared in multiple macroeconomic indicators as well as the economic structure. A great start in economy perceived with a 6.9% year-on-year increase in GDP. During the Period, the Group's revenue amounted to RMB770.2 million, representing an increase of 20.1% compared to the same period in 2016. Profit and comprehensive income attributable to shareholders was RMB228.8 million, up 28.6% compared to the Same Period of last year. The Board declared an interim dividend of HK3.24 cents per Share to the Shareholders for their support.

During the Period, the Group continuously consolidated its core business development. Competitiveness of our subsidiaries improved consistently and realized positive growth in the first half of 2017. Meanwhile, the Group also actively expanded its business scope. Currently, our cemeteries and funeral facilities covered 17 cities in 10 provinces or municipalities in the PRC. Projects in Bishan District, Chongqing Municipality and Xuancheng City, Anhui Province were under construction during the Period, which were expected to put into operation by the end of 2017 at the soonest estimation. In early 2017, the acquisition of 80% equity interest in Luoyang Xianhe Cemetery was completed. In April, 2017, the Group won a public bidding and entered into a framework agreement in relation to the establishment of Gaoyou Funeral Service Center under the "BOT" (Build-Operate-Transfer) model. By assisting the government in boosting supply-side structural reform of death care services, the Group could provide more diversified and qualified service to potential customers, while promoting innovation and development of death care industry. Moreover, with our self-developed environmental-friendly cremation machine, the Group has been actively participating in its marketing and promotion. Regarding to pre-need contract business, the Group continued with promotion and exploration. We have signed 562 pre-need contracts with our customers within the first half of 2017, which is already exceeding the total of last year.

The Group has taken an active part in all kinds of social welfare activities since its establishment, covering a wide range of areas, including cultural education, disaster relief, poverty support, environmental protection, etc. Our "Culture and Education Committee" and "Fu Shou Yuan Life Service College" have been striving to introduce, advocate and implement advanced death care concepts worldwide to train and build up a pool of professionals for the long-term development of the Company and the industry, which gained appreciation by various sectors of the community. In the Sixth Chinese Charity Festival which was held during the first half of 2017, the Group was awarded "the 2016 Group Charity Award of the Year" and "the 2016 Charity Innovation Award", fully demonstrating worldwide recognition of the Group's corporate mission and value in "adhering to people-oriented philosophy and taking root in culture".

Looking forward, the Group will seize the opportunity brought to the death care industry by the urbanization and aging population in China. On one hand, through product and service innovation, operating management enhancement, we aim to improve competitiveness and promote existing business in a wholesome pace. On the other, through mergers and acquisitions as well as participation in government funeral cooperation projects, we are to integrate industry resources and expand our business portfolios, in order to provide better death care service to the society and realize greater social and economic benefits.

By order of the Board  
**Fu Shou Yuan International Group Limited**  
**Bai Xiaojiang**  
*Chairman*

Hong Kong, August 11, 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET OVERVIEW

“Filial piety” has long been China’s traditional culture and virtue, which serves as the back bone for the death care industry to subsist and develop in the PRC. The Group currently focuses on the death care service market in the PRC which for its huge population base and the cultural heritage of “filial piety”, has developed into the largest death care market in the world.

The increasing disposable income per capita in the PRC, the strong promotion by the government on Chinese traditional culture and virtue and the accelerating pace of urbanization and aging population have generated huge demand on death care services, enabling the death care service industry in the PRC to develop into one of the industries where the growth is fairly predictable and moderate. Although the economic growth of the PRC has slowed down, the death care industry is relatively less affected by economic cyclical fluctuations and the driving factors are still driving the development of the death care industry in the PRC.

Meanwhile, the increasingly stringent environmental protection requirements from Chinese government will lead to the demand to replace existing cremation equipment in funeral facilities all over the PRC with environmental-friendly cremation machines.

## BUSINESS COMMENTARY

As the largest death care services provider in the PRC, the Group strives to develop cemeteries into urban cultural parks, offer the last farewell to lives with respects and comeliness, transform the traditional death care industry into modern service industry that caters to customers’ needs, and provides customized services and a richer selection to customers. We respect and serve for lives, help our customers to vent their grief and find their emotional attachment, and honor the final journey of life with inherent equality and dignity. During the Period, the Group has as always continued to put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improving service quality, and offering innovative services and products. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain widespread recognition from our customers. Also, our brand value has been constantly consolidated and explored.

In early January 2017, we completed to acquire 80% equity interest in Luoyang Xianhe Cemetery, which has been delivering the expected revenue. Our projects in Bishan District of Chongqing Municipality and in Xuancheng City of Anhui Province has been under construction during the Period. The relevant facilities will be put into operation before the end of 2017 at the soonest estimation. On April 18, 2017, we won the public bidding and entered into a framework agreement in relation to the establishment of Gaoyou Funeral Service Center under the “BOT” model. As at June 30, 2017, excluding the projects under development, we own up to 14 cemeteries in operation, and were operating up to 11 funeral facilities. We also generate revenue by providing management services to three small cemeteries. The geographic coverage of our business has expanded to 17 cities in 10 provinces or municipalities in the PRC. The expanding business footprints lay a good foundation for the Group’s future development.

During the Period, we had been marketing our environmental-friendly cremation machine all around the China and the factory had been ready for mass production. We believe the environmental friendly cremator business will make considerable contribution to the Group’s business growth in the near future.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, we had been developing and standardizing the pre-need contract for funeral services suitable for different cities, and have been building the infrastructures and systems necessary for exploring pre-need business in large-scale all around the PRC. We also started to promote our pre-need contract in a couple of cities. During the Period, we signed 562 pre-need contracts with our customers.

While growing rapidly, we have been constantly boosting the Group's core competitiveness and industry consolidation capacity. The Group's "Culture and Education Committee" and "Fu Shou Yuan Life Service College", established in 2015, have been in functioning. We strive to preach and implement the advanced international funeral concepts so as to train and build a pool of professionals for future business expansion. We continually motivate our management and employees. During the Period, we granted the fifth batch of share options under the Share Option Schemes, which further enhanced and boosted the Group's internal cohesion and effectively motivated our employees. We have also been elevating our service quality and bringing more values to our customers by input structure optimization and continuous products innovation. Meanwhile, we have been making continuous efforts to enhance our management by strengthening the budget control, internal control system and information technology. As a result, our operation efficiency has been materially improved. The operation expense ratio has been continuously decreasing and the operation risks have been under effective control when the Group grows fast.

As a result of all these efforts, we achieved impressive growth despite the slow-down of China's economy growth. During the Period, the Group recorded the sale of 10,075 tombs and provided funeral services to 9,010 customers. The total revenue amounted to RMB770.2 million, representing an increase of 20.1% year over year. Our gross profit margin and revenue per square meter of land were also further improved, as compared to the Same Period of last year. The Group made a net profit totaling RMB296.2 million, representing an increase of 27.1% compared to the Same Period of last year. Net profit attributable to our shareholders was RMB228.8 million, representing an increase of 28.6% as compared to the Same Period of last year.

## REVENUE

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

	<b>Six Months Ended</b>			
	<b>June 30, 2017</b>		<b>June 30, 2016</b>	
	<b>Revenue</b>	<b>% of total</b>	<b>Revenue</b>	<b>% of total</b>
	<b>(RMB'000)</b>	<b>revenue</b>	<b>(RMB'000)</b>	<b>revenue</b>
Burial services	<b>694,386</b>	<b>90.2%</b>	570,156	88.9%
Funeral services	<b>73,879</b>	<b>9.6%</b>	70,071	10.9%
Other services	<b>4,962</b>	<b>0.6%</b>	2,925	0.5%
Inter-segment elimination	<b>(2,982)</b>	<b>(0.4%)</b>	(1,611)	(0.3%)
<b>Total</b>	<b>770,245</b>	<b>100.0%</b>	641,541	100.0%



# MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue increased by RMB128.7 million, or 20.1%, from RMB641.5 million for the Same Period of last year to RMB770.2 million for the Period. This increase was primarily driven by a 21.8%, or RMB124.2 million, increase in revenue from burial services.

Our revenue from funeral services slightly increased by RMB3.8million, or 5.4% from RMB70.1 million for the Same Period of last year to RMB73.9 million for the Period. It is mainly due to the increase of funeral services revenue from the regions other than Chongqing by RMB7.0 million, or 15.5%, while partially offset by the decrease in funeral service revenue from Chongqing.

Our cemeteries and funeral facilities are strategically located in major cities across 10 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:

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai	421,605	54.9%	347,720	54.3%
Henan	40,992	5.3%	21,366	3.3%
Chongqing	35,210	4.6%	42,068	6.6%
Anhui	68,307	8.9%	64,744	10.1%
Shandong	27,890	3.6%	19,590	3.1%
Liaoning	96,732	12.6%	94,520	14.8%
Jiangxi	20,378	2.7%	18,279	2.8%
Fujian	15,988	2.1%	14,076	2.2%
Zhejiang	3,965	0.5%	2,495	0.4%
Jiangsu	37,198	4.8%	15,369	2.4%
<b>Total</b>	<b>768,265</b>	<b>100.0%</b>	<b>640,227</b>	<b>100.0%</b>

We had been focusing on providing top quality burial and funeral services to our customers, strengthened our sales and marketing effort during the Period. As a result, we achieved growth as compared to the Same Period of last year almost in all locations where we operate. We completed the acquisition of the controlling equity in Luoyang Xianhe Cemetery in early January 2017. Excluding the revenue of RMB10.0 million contributed by Luoyang Xianhe Cemetery, our organic growth in revenue from burial and funeral services for the Period amounted to RMB118.1 million, or 18.4% as compared to the Same Period of last year. The revenue from Chongqing region decreased by RMB6.9 million, or 16.3% as compared to the Same Period of last year. It was mainly because: (i) Chongqing Baitayuan did not adjust its marketing policy in a timely and flexible manner responding to the changed local market during the Period, which led to its decreased revenue; and (ii) the funeral agents had been providing underground wake services by making use of a newly government built funeral parlour since the second half of 2015, which eroded part of our market share. We have been approaching this funeral parlour for possible cooperation, actively exploring other suitable sites to increase our funeral service coverage in Chongqing and improving marketing penetration. We will also leverage the synergy to improve the performance considering we have a relatively complete range of service including funeral wake, cremation, cemetery and columbarium in Chongqing.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BURIAL SERVICES

We derived a substantial portion of revenue from our burial services, which represented 90.2% (the Same Period of last year: 88.9%) of our total revenue for the Period. 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 98.3% of our revenue from burial services for the Period. The following table sets forth the breakdown of our revenue from burial services, including revenue from the sale of burial plots by type and revenue from cemetery maintenance services, for the Period:

	Six Months Ended					
	June 30, 2017			June 30, 2016		
	No. of Units	Revenue (RMB'000)	% of revenue from burial services	No. of Units	Revenue (RMB'000)	% of revenue from burial services
<b>Sale of burial plots</b>						
– Customized	419	179,110	25.8%	408	140,380	24.6%
– Artistic	2,362	289,200	41.6%	2,239	234,979	41.2%
– Traditional	2,765	110,617	16.0%	2,794	108,150	19.0%
– Lawn	486	35,693	5.1%	382	25,306	4.4%
– Green	1,229	10,968	1.6%	593	7,293	1.3%
– Indoor	2,814	11,208	1.6%	780	8,310	1.5%
– Other burial related services	—	45,867	6.6%	—	37,510	6.6%
	<b>10,075</b>	<b>682,663</b>	<b>98.3%</b>	<b>7,196</b>	<b>561,928</b>	<b>98.6%</b>
<b>Cemetery maintenance services</b>	—	11,723	1.7%	—	8,228	1.4%
<b>Total Revenue From Burial Services</b>	<b>10,075</b>	<b>694,386</b>	<b>100.0%</b>	<b>7,196</b>	<b>570,156</b>	<b>100.0%</b>

We sold 6,750 burial plots, excluding 3,325 plots charged with very low prices in Changzhou Qifengshan Cemetery and Haigang Fu Shou Yuan for public welfare purpose for the Period. The number of burial plots we sold kept flat with that of the Same Period of last year (6,746 burial plots, excluding 450 plots charged with very low prices for public welfare purpose).

The average selling price of burial plots, excluding those plots for public welfare purpose, was RMB93,884 per unit for the Period. It is increased by RMB16,209 per unit, or 20.9%, from RMB77,675 per unit for the Same Period of last year. Our brand value has been constantly consolidated and explored.

# MANAGEMENT DISCUSSION AND ANALYSIS

We have 14 cemeteries in operation as of June 30, 2017, and have been deriving revenue from 13 of them as subsidiaries and one of them as a joint venture. The following table sets forth the breakdown of our revenue from the burial services by cemetery for the Period:

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	294,264	42.4%	245,426	43.1%
Haigang Fu Shou Yuan	117,631	16.9%	95,638	16.8%
Henan Fu Shou Yuan	28,680	4.1%	20,722	3.6%
Shandong Fu Shou Yuan	27,888	4.0%	19,591	3.4%
Hefei Dashushan Cultural Cemetery	51,750	7.5%	46,957	8.2%
Jinzhou Maoshan Anling	26,253	3.8%	24,806	4.4%
Chongqing Baitayuan	11,389	1.6%	16,942	3.0%
Meilin Century Cemetery	12,812	1.9%	11,567	2.0%
Guanlingshan Cultural Cemetery	70,479	10.2%	69,714	12.2%
Wuyuan Wanshoushan Cemetery	3,730	0.5%	2,781	0.5%
Anyang Tianshouyuan Cemetery	2,333	0.3%	644	0.1%
Changzhou Qifengshan Cemetery	37,198	5.4%	15,368	2.7%
Luoyang Xianhe Cemetery	9,979	1.4%	—	—
<b>Total Consolidated Revenue from Burial Services</b>	<b>694,386</b>	<b>100.0%</b>	<b>570,156</b>	<b>100.0%</b>
<b>Joint venture's revenue from burial services</b>				
Huaibei Fangshan Cemetery	2,688	100.0%	1,854	100.0%

Total consolidated revenue from burial services for the Period increased by RMB124.2 million, or 21.8%, as compared with the Same Period of last year. We achieved fast growth for the Period in all cemeteries we operate except for Chongqing Baitayuan.

# MANAGEMENT DISCUSSION AND ANALYSIS



## COST OF SALES AND SERVICES

The following table sets forth information relating to our cost of sales and services by segment for the Period:

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	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	124,889	81.1%	107,938	79.8%
Funeral services	27,535	17.9%	26,310	19.5%
Other services	4,033	2.6%	2,305	1.7%
Inter-segment elimination	(2,410)	(1.6%)	(1,363)	(1.0%)
<b>Total</b>	<b>154,047</b>	<b>100.0%</b>	<b>135,190</b>	<b>100.0%</b>

Our cost of sales and services increased by RMB18.9 million, or 13.9%, from RMB135.2 million for the Same Period of last year to RMB154.0 million for the Period. The increases were mainly due to our business growth in burial services.

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

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	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	36,298	29.1%	31,793	29.5%
Land cost	18,896	15.1%	14,228	13.2%
Development cost	40,576	32.5%	31,721	29.4%
Taxes	532	0.4%	5,457	5.0%
Cemetery maintenance cost	10,060	8.1%	7,683	7.1%
Costs for other burial related services	18,527	14.8%	17,056	15.8%
<b>Total</b>	<b>124,889</b>	<b>100.0%</b>	<b>107,938</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 other services represents the various expenditures incurred in relation to provision of other services.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by RMB109.8 million, or 21.7%, from RMB506.4 million for the Same Period of last year to RMB616.2 million for the Period. 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 80.0% for the Period, slightly higher than the overall gross profit margin of 78.9% for the Same Period of last year. This was mainly due to the increased gross margin of burial services as a result of increased average selling price and effective cost control.

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

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)
Burial services	569,497	82.0%	462,218	81.1%
Funeral services	46,344	62.7%	43,761	62.5%
Other services	929	18.7%	620	21.2%
Inter-segment elimination	(572)	19.2%	(248)	15.4%
<b>Total</b>	<b>616,198</b>	<b>80.0%</b>	<b>506,351</b>	<b>78.9%</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:

	Six Months Ended	
	June 30, 2017 (RMB'000)	June 30, 2016 (RMB'000)
Interest income	18,854	17,907
Government grant	5,506	4,810
Management service income	1,304	1,304
Exchange (loss) gain	(1,831)	1,752
Others	(52)	237
<b>Total</b>	<b>23,781</b>	<b>26,010</b>

# MANAGEMENT DISCUSSION AND ANALYSIS



Our interest income increased by RMB1.0 million from RMB17.9 million for the Same Period of last year to RMB18.9 million for the Period, mainly due to the higher average bank balances.

We received a government grant in the amount of RMB5.5 million for the Period, which represented unconditional subsidies from the local government to encourage and reward our contribution to the local economy.

We recorded an exchange loss of RMB1.8 million mainly due to the appreciation of RMB against USD and HKD at the Period end.

## DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 34.1% of our total revenue for the Period (the Same Period of last year: 36.2%), increased by RMB30.6 million, or 13.2%, from RMB232.2 million for the Same Period of last year to RMB262.8 million for the Period. The increase was mainly the result of: (i) the operating expenses of RMB3.3 million from Luoyang Xianhe Cemetery, a subsidiary acquired in the first half of 2017; (ii) higher amortization on stock option by RMB2.4 million, as a result of the grant of new options during the Period; (iii) a couple of projects kicked off while still in start-up period; and (iv) reasonable staff cost increase and other general variable expenditures increase to support the business growth.

## FINANCE COSTS

Finance costs for the Period consist of interest expense of RMB3.2 million on bank loans (the Same Period of last year: RMB4.2 million), and interest expenses of RMB0.8 million (the Same Period of last year: RMB1.0 million) on loans from non-controlling interests.

Interest expense on loans from non-controlling interests refers to our interest expense in connection with the shareholder's loans borrowed by our subsidiary, Shandong 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.

## 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. Our effective corporate income tax rate for the Period was 20.7% (the Same Period of last year: 21.0%). The lower effective tax rate was mainly due to: (i) Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan, were subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions; (ii) 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; and (iii) certain subsidiaries made tax reduction on exercised share options because the relevant tax authorities have agreed that the share options granted by the Company to and exercised by the employees of these subsidiaries in the PRC can form a base for claiming tax deduction in respect of the EIT of those subsidiaries.

# MANAGEMENT DISCUSSION AND ANALYSIS

The income tax expenses increased by RMB15.4 million, or 25.0%, from RMB61.9 million for the Same Period of last year to RMB77.3 million for the Period, mainly due to the increased profit before taxation as a result of business growth and different extent of above factors' impact.

## 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 RMB50.8 million, or 28.6%, from RMB177.9 million for the Same Period of last year to RMB228.8 million for the Period. This increase was primarily due to: (i) the overall growth of our revenue from our cemeteries and funeral facilities; (ii) more values delivered to our customers and therefore higher average selling price as well as higher gross margin; (iii) effective cost controls; and (iv) the decreased effective corporate income tax rate.

## CASH FLOW

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

	Six Months Ended	
	June 30, 2017 (RMB'000)	June 30, 2016 (RMB'000)
Net cash generated from (used in)		
– operating activities	322,150	211,520
– investing activities	126,634	(206,409)
– financing activities	(81,841)	(113,579)
<b>Total</b>	<b>366,943</b>	<b>(108,468)</b>

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 burial plots, selling and distribution expenses, administrative expenses and other operating expenditures. 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. Our net cash generated from operating activities amounted to RMB322.2 million for the Period, representing 52.3% increase as compared to the Same Period of last year. It mainly included the operating cash inflows before taxation and movement in working capital of RMB 414.6 million, but partially offset by (i) the increase of other working capital of RMB0.6 million; and (ii) income tax paid of RMB91.9 million.



# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, we generated net cash in investing activities by RMB126.6 million. It was primarily due to: (i) the redemption on maturity of time deposits of RMB182.9 million; and (ii) interest received of RMB20.7 million. It was partially offset by: (i) consideration payment of RMB30.2 million to acquire subsidiaries; and (ii) additions to deposits for property and equipment of approximately RMB46.5 million, mainly for building cemeteries and funeral facilities in Bishan District of Chongqing Municipality and Xuancheng City of Anhui Province, upgrading our landscape in the cemeteries we acquired recent years since IPO and decoration improvement in certain funeral facilities.

Our net cash used in financing activities amounted to RMB81.8 million for the Period. It was primarily due to: (i) final dividends for 2016 paid to the owners of the Company of RMB48.0 million; (ii) dividends paid to non-controlling interests of RMB62.6 million; (iii) net decrease of bank loans of RMB2.5 million; and (iv) interest paid of approximately RMB4.0 million for our borrowings. It was partially offset by the proceeds received of RMB35.4 million related to the exercise of certain employee share options.

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2017, we had bank balances and cash of RMB1,605.8 million (December 31, 2016: RMB1,238.9 million) and time deposits of RMB111.0 million (December 31, 2016: RMB293.9 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 RMB131.5 million as at June 30, 2017, within which there are borrowings of RMB68.5 million repayable within one year, RMB21.0 million repayable within two years, RMB20.7 million repayable within three years, RMB15.0 million repayable within four years, and RMB6.4 million repayable within five years. These borrowings were dominated in RMB and were subject to floating interest rates ranging from 4.35% to 4.998% per annum. Meanwhile, Shandong Fu Shou Yuan, one of our subsidiaries, also had an outstanding loan balance of RMB34.3 million as at June 30, 2017, with interest rate of 4.785% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre.

In addition, we had bank borrowing facilities of approximately RMB1,600 million committed but not withdrawn as at June 30, 2017. Besides, we had another bank borrowing facility of RMB500 million in renewing process.

# 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, 2017 was 5.1% (December 31, 2016: 5.6%). Our operation has been lightly leveraged because of our good operating cash generating capability. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not estimate our gearing ratio will substantially increase considering the bank balances and cash 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, 2017, cash and cash equivalents and time deposits held in RMB, HK\$ and US\$ accounted for 88.0%, 4.2% and 7.8% respectively, of the total cash and cash equivalents and time deposits. 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 Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting significant foreign currency hedging policy in the future.

## TREASURY MANAGEMENT AND CASH FUNDING

The Group's funding and treasury policy is designed to maintain a comprehensively diversified and balanced debt profile and financial structure to minimize the Group's financial risks. The Group continues to monitor its cash flow position and debt profile, and to enhance the cost-efficiency of funding initiatives by its centralized treasury function. In order to maintain financial flexibility and adequate liquidity for the Group's operations, potential investments and growth plans, the Group has built a strong base of funding resources and will keep exploring cost-efficient ways of financing.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In early January 2017, we completed to acquire 80% equity interest in Luoyang Xianhe Cemetery with a total consideration of RMB 57.6 million. Luoyang Xianhe Cemetery has been mainly providing burial services and holds land use right for a parcel of land measuring 26,000 sq. m. in Luoyang City of Henan Province.

Our two projects in Bishan District of Chongqing Municipality and in Xuancheng City of Anhui Province were under construction during the Period. They are expected to deliver revenue by the end of the 2017 at the soonest estimation. While the project in Tai'an City of Shandong Province is still in the early start-up stage during the Period.

On April 18, 2017, we entered into a framework agreement with the government-operated funeral home of Gaoyou City in Jiangsu Province in relation to the establishment of Gaoyou Funeral Service Center under the "BOT" model. A wholly owned subsidiary was set up in the Period to serve as the business vehicle for the funeral home business. The cooperation is currently in the start-up stage.

# MANAGEMENT DISCUSSION AND ANALYSIS



## EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2017, we had 1,815 full-time employees (December 31, 2016: 1,724 full-time employees). 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 RMB50.4 million as at June 30, 2017. We had also planned to provide approximately RMB217.3 million for the acquisition or construction of new cemeteries and funeral facilities in Xuancheng City, Tai'an City and Bishan District of Chongqing Municipality as discussed above.

We expect our capital expenditure in the following months of the 2017 and afterwards will maintain at a relatively high level as we are actively seeking for and approached by many industry consolidation opportunities.

## ASSETS PLEDGED

As at June 30, 2017, we pledged the 75% equity interest of Wuyuan Wanshoushan Cemetery and 80% equity interest of Changzhou Qifengshan Cemetery to secure certain bank borrowings granted to finance the relevant acquisitions. Except for that, no other assets were pledged or charged.

## 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. During the Period, we expended land of approximately 17,288 sq.m. to generate revenue from sale of burial plots. Our total salable area was approximately 1.91 million sq.m. as at June 30, 2017 (December 31, 2016: approximately 1.81 million sq.m.), including a piece of land acquired in Bishan District of Chongqing Municipality and a piece of land acquired via the acquisition of 80% equity interest of Luoyang Xianhe Cemetery during the Period.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CONTINGENT LIABILITIES

As previously disclosed, one of our indirect and non-wholly owned subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. There were 8 lawsuits outstanding as at December 31, 2016.

During the Period, four lawsuits were concluded by the People's court. The second-instance judgements were awarded in favor of Wuyuan Wanshoushan Cemetery for two lawsuits. And the judgements were awarded against Wuyuan Wanshoushan Cemetery for the other two lawsuits with claims amounting to approximately RMB30 million (including the claimed principals and contingent interests) as at June 30, 2017. We have applied to the Supreme People's Court for retrial as we consider the judgements to be unfair. Our retrial application was accepted on July 5, 2017.

During the Period, one plaintiff withdrew a lawsuit, and refiled it afterwards. Therefore, as at June 30, 2017, there are 6 lawsuits outstanding with claims totaling approximately RMB50 million (including the claimed principals and contingent interests), including the two lawsuits for which we applied retrial.

We are still in the process of taking all necessary steps in reversing the judgements and vigorously defending against the proceedings. As of the date of this report, after taking into account the legal opinions and the current status of the proceedings, the Directors are of the view that the proceedings will in the end result in a material adverse impact on the financial position and business operation of the Group is not probable and conclude that no provision shall necessarily be made. However, given the nature of the proceedings, it would be impossible to predict the outcome of the proceedings with a sufficient degree of certainty.

## 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.

## PROSPECTS

Looking ahead, we will remain an influential player of China's death care services industry and will continue to take the lead to drive the modernization of the death care business of the PRC, and promote the healthy development of the national death care culture with humanity, charity and environmental protection in mind. We will adhere to our strategic goals, look for suitable growth opportunities, strive for external development, consolidate the highly disintegrated resources of the PRC's death care industry, and boost our market share. We will also push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business operation, we will consolidate newly acquired businesses and raise their standards on a par with ours. Meanwhile, we will strive to make our cremation machine business to become an important segment of the Group's business. With much effort to promoting the pre-need contract business and innovative ideas in our collaboration with local governments, we will strive to increase the percentage of our funeral services in the Group's business. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business in a more sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our investors with the best returns.

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at June 30, 2017, 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 (Note 1)	Long position	96,600,000	4.53%
	Beneficial owner	Long position	3,453,452 (Note 2)	0.16%
Mr. WANG Jisheng	Beneficiary of a trust (Note 3)	Long position	96,600,000	4.53%
	Beneficial owner	Long position	3,453,452 (Note 4)	0.16%
Mr. LU Hesheng	Interest in a controlled corporation (Note 5)	Long position	27,600,000	1.29%

#### Notes:

- Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch Limited, which in turn is interested in approximately 4.53% of the issued share capital of the Company. These shares are held indirectly under a trust, UBS Trustees (BVI) Limited, of which Mr. Bai Xiaojiang is a beneficiary.
- As at the date of this interim report, Mr. Bai Xiaojiang was interested in 5,953,452 Shares in the capacity of beneficial owner (representing approximately 0.28% of the issued share capital of the Company).
- Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field Limited, which in turn is interested in approximately 4.53% of the issued share capital of the Company. These shares are held indirectly under a trust, UBS Trustees (BVI) Limited, of which Mr. Wang Jisheng is a beneficiary.
- As at the date of this interim report, Mr. Wang Jisheng was interested in 5,953,452 Shares in the capacity of beneficial owner (representing approximately 0.28% of the issued share capital of the Company).
- Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire Limited, which in turn is interested in approximately 1.29% of the issued share capital of the Company.

## OTHER INFORMATION

### (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, 2017, 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.

### 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, 2017, 50,000,000 options were granted by the Company under the Share Option Scheme. As at the date of this interim report, a total of 9,762,000 Shares have been issued upon exercise of the options granted under the Share Option Scheme. As at June 30, 2017, the total number of Shares available for issue upon exercise of the options granted under the Share Option Scheme was 186,683,000 Shares, representing 8.71% of the total number of issued shares of the Company as at the date of this interim report.

On May 15, 2017, the refreshment of the Scheme Mandate Limit under the Share Option Scheme to allow the Company to grant options entitling holders thereof to subscribe for up to 210,000,000 Shares was approved by the Shareholders.



# OTHER INFORMATION

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, 2017:

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options outstanding as at January 1, 2017	Options granted on March 30, 2017	Options exercised during the six months ended June 30, 2017	Options lapsed during the six months ended June 30, 2017	Options cancelled during the six months ended June 30, 2017	Options outstanding as at June 30, 2017	Exercisable period
<i>Directors</i>										
Bai Xiaojiang	August 5, 2014	4.14	4.01	2,000,000	—	—	—	—	2,000,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	3,000,000	—	—	—	—	3,000,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	5,000,000	—	—	—	5,000,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Tan Leon Li-an	August 5, 2014	4.14	4.01	400,000	—	—	—	—	400,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
Wang Jisheng	August 5, 2014	4.14	4.01	2,000,000	—	—	—	—	2,000,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	3,000,000	—	—	—	—	3,000,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	5,000,000	—	—	—	5,000,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Ma Xiang	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
Lu Hesheng	August 5, 2014	4.14	4.01	400,000	—	—	—	—	400,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	500,000	—	—	—	—	500,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	500,000	—	—	—	500,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Huang James Chih-Cheng	August 5, 2014	4.14	4.01	400,000	—	—	—	—	400,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
Chen Qunlin	August 5, 2014	4.14	4.01	200,000	—	—	—	—	200,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	300,000	—	—	—	300,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Luo Zhuping	August 5, 2014	4.14	4.01	200,000	—	—	—	—	200,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	300,000	—	—	—	300,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Ho Man	August 5, 2014	4.14	4.01	200,000	—	—	—	—	200,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	300,000	—	—	—	300,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Wu Jianwei	August 5, 2014	4.14	4.01	200,000	—	—	—	—	200,000	August 5, 2016 to August 4, 2024 <sup>1</sup>
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	300,000	—	—	—	300,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
Other employees of the Group (in aggregate)	August 5, 2014	4.14	4.01	34,270,000	—	1,758,000 <sup>3</sup>	—	—	32,512,000	August 5, 2016 to August 4, 2018 <sup>2</sup>
	March 19, 2015	3.126	3.16	42,300,000	—	1,829,000 <sup>4</sup>	—	—	40,471,000	March 19, 2017 to March 18, 2019 <sup>2</sup>
	March 24, 2016	5.824	5.54	41,300,000	—	—	—	—	41,300,000	March 24, 2018 to March 23, 2020 <sup>2</sup>
	March 20, 2017	4.850	4.82	—	38,300,000	—	—	—	38,300,000	March 20, 2019 to March 19, 2021 <sup>2</sup>
<b>Total</b>				<b>140,270,000</b>	<b>50,000,000</b>	<b>3,587,000</b>	<b>—</b>	<b>—</b>	<b>186,683,000</b>	

# OTHER INFORMATION

Note 1: 50% of these options are exercisable from the second anniversary day of the date of grant and 50% are exercisable from the third anniversary day of the date of grant. These options will expire on the tenth anniversary day of the date of grant.

Note 2: 50% of these options are exercisable from the second anniversary day of the date of grant and 50% are exercisable from the third anniversary day of the date of grant. These options will expire on the fourth anniversary day of the date of grant.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$4.95.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$4.91.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2017.

## 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 4.67% 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) the Pre-IPO Share Option Scheme was valid between March 10, 2013 and December 18, 2013. 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 validity 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 2.69% 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

As at the date of this interim report, a total of 57,591,422 Shares have been issued upon exercise of the options granted under the Pre-IPO Share Option Scheme. As at June 30, 2017, the total number of Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme was 3,950,878 Shares, representing 0.18% of the total number of issued shares of the Company as at the date of this Interim Report.

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	Options	Options	Options outstanding as at June 30, 2017	Exercisable period
			balance outstanding as at January 1, 2017	granted during the six months ended June 30, 2017	exercised during the six months ended June 30, 2017		
<i>Directors</i>							
Bai Xiaojiang	August 8, 2013	0.9	3,453,452	—	3,453,452 <sup>1</sup>	—	August 8, 2015 to August 7, 2017
Wang Jisheng	August 8, 2013	0.9	3,453,452	—	3,453,452 <sup>2</sup>	—	August 8, 2015 to August 7, 2017
Other employees (in aggregate)	August 8, 2013	0.9	24,278,538	—	20,327,660 <sup>3</sup>	—	August 8, 2015 to August 7, 2017
<b>Total</b>			<b>31,185,442</b>	<b>—</b>	<b>27,234,564</b>	<b>—</b>	<b>3,950,878</b>

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$5.03.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$5.03.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$4.89.

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.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme during the six months ended June 30, 2017.

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

During the six months ended June 30, 2017, 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, 2017, 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	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
FSG Holding	Beneficial owner	Long position	373,518,000	17.51%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	373,518,000	17.51%
Perfect Score	Beneficial owner	Long position	483,000,000	22.64%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	22.64%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	22.64%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	22.64%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	22.64%
UBS Trustees (BVI) Limited	Trustee	Long position	208,886,000	9.79%
Double Riches	Beneficial owner	Long position	119,445,000	5.60%
Ge Qiansong	Interest in a controlled corporation (Note 6)	Long position	119,445,000	5.60%
Sunshine Life Insurance Co., Ltd* (陽光人壽保險股份有限公司)	Beneficial owner (Note 7)	Long position	151,482,000	7.10%
Sunshine Insurance Group Co., Ltd* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 7)	Long position	151,482,000	7.10%

\* For identification purpose only

## 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 17.51% of the issued share capital of the Company in which FSG Holding is interested in.
2. Perfect Score is a direct wholly-owned subsidiary of Zhongfu and Zhongfu is deemed or taken to be interested in approximately 22.64% of the issued share capital of the Company in which Perfect Score is interested in.
3. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu is deemed or taken to be interested in approximately 22.64% of the issued share capital of the Company in which Perfect Score is interested in.
4. Hongfu is owned by NGO 1 as to 50% and NGO 1 is deemed or taken to be interested in approximately 22.64% of the issued share capital of the Company in which Perfect Score is interested in.
5. Hongfu is owned by NGO 2 as to 50% and NGO 2 is deemed or taken to be interested in approximately 22.64% of the issued share capital of the Company in which Perfect Score is interested in.
6. Ge Qiansong is interested in approximately 34.66% of the issued share capital of Double Riches and therefore Ge Qiansong is deemed or taken to be interested in approximately 5.60% of the issued share capital of the Company in which Double Riches is interested in.
7. Sunshine Insurance Group Co., Ltd is interested in approximately 99.99% of the issued share capital of Sunshine Life Insurance Co., Ltd and therefore Sunshine Insurance Group Co., Ltd is deemed or taken to be interested in approximately 7.10% of the issued share capital of the Company in which Sunshine Life Insurance Co., Ltd is interested in.

Save as disclosed above, as at June 30, 2017, so far as the Directors were aware, no other persons (other than the Directors or chief executives) had an interests or short positions in the Shares and underlying Shares 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, 2017.

No incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended June 30, 2017.

### CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

There is no change in the Directors' information, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# OTHER INFORMATION

## 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 June 30, 2017, we had used approximately HK\$297.8 million towards acquiring new lands, approximately HK\$56.5 million to set up new funeral facilities, approximately HK\$1,047.8 million for mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK\$46.1 million to expand 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 afterwards.

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.24 cents per Share for the six months ended June 30, 2017 (2016: HK2.57 cents per Share). The interim dividend is expected to be payable to the Shareholders on or before Friday, September 22, 2017. 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 Monday, September 4, 2017.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, August 31, 2017 to Monday, September 4, 2017, 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 Wednesday, August 30, 2017.

## 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, 2017.





## OTHER INFORMATION

### REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial report of the Group for the six months ended June 30, 2017 has been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 —“Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor will be included in the Interim Report of the Company to be despatched to the Shareholders.

The Audit Committee of the Company, comprising two independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee) and Mr. Luo Zhuping, and one non-executive Director, namely, Mr. Huang James Chih-Cheng, has reviewed together with the management the accounting principles and policies adopted by the Group, and the Group’s unaudited interim results for the six months ended June 30, 2017.

### 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 six months ended June 30, 2017.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## TO THE BOARD OF DIRECTORS OF FU SHOU YUAN INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fu Shou Yuan International Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 27 to 61 which comprise the condensed consolidated statement of financial position as of June 30, 2017 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 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, 2017

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

FOR THE SIX MONTHS ENDED JUNE 30, 2017



		For the six months ended June 30	
NOTES	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	
Revenue	5	770,245	641,541
Cost of sales and services		<u>(154,047)</u>	<u>(135,190)</u>
Gross profit		616,198	506,351
Other income and gains, net	6	23,781	26,010
Distribution and selling expenses		(117,852)	(101,699)
Administrative expenses		(144,978)	(130,486)
Share of profit of a joint venture		398	—
Finance costs	7	<u>(4,000)</u>	<u>(5,188)</u>
Profit before taxation	8	373,547	294,988
Income tax expense	9	<u>(77,347)</u>	<u>(61,858)</u>
Profit and total comprehensive income for the period		<u><b>296,200</b></u>	<u>233,130</u>
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Company		228,757	177,930
Non-controlling interests		<u>67,443</u>	<u>55,200</u>
		<u><b>296,200</b></u>	<u>233,130</u>
		<b>RMB cents</b>	RMB cents
Earnings per share – Basic	11	<u>10.8</u>	<u>8.5</u>
– Diluted	11	<u>10.6</u>	<u>8.3</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2017

	NOTES	June 30, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
<b>Non-current assets</b>			
Property and equipment	12	417,590	377,429
Prepaid lease payments		21,373	21,620
Investment property	13	6,509	6,509
Intangible assets		14,908	14,035
Goodwill	14	314,085	290,634
Deposits paid for acquisition of land use rights		—	49,329
Cemetery assets	15	1,207,444	1,104,531
Investment in a joint venture	16	30,398	30,485
Restricted deposits	17	37,123	32,216
Deferred tax assets	18	27,266	27,513
Other long-term assets	19	14,710	13,800
		<b>2,091,406</b>	<b>1,968,101</b>
<b>Current assets</b>			
Inventories	20	383,032	372,407
Trade and other receivables	21	55,814	62,954
Time deposits	22	111,000	293,850
Bank balances and cash	23	1,605,849	1,238,906
		<b>2,155,695</b>	<b>1,968,117</b>
<b>Current liabilities</b>			
Trade and other payables	24	358,108	287,642
Deferred income	26	23,812	18,200
Income tax liabilities		101,336	114,884
Borrowings	25	68,450	60,450
		<b>551,706</b>	<b>481,176</b>
<b>Net current assets</b>		<b>1,603,989</b>	<b>1,486,941</b>
<b>Total assets less current liabilities</b>		<b>3,695,395</b>	<b>3,455,042</b>



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2017

	NOTES	June 30, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
<b>Non-current liabilities</b>			
Deferred income	26	242,210	223,070
Other long-term liability		9,910	5,910
Loans from non-controlling interests	32	34,308	34,360
Borrowings	25	63,020	73,520
Deferred tax liabilities	18	88,683	89,142
		<u>438,131</u>	<u>426,002</u>
<b>Net assets</b>		<u>3,257,264</u>	<u>3,029,040</u>
<b>Capital and reserves</b>			
Share capital	27	129,578	127,470
Reserves		<u>2,643,473</u>	<u>2,408,710</u>
Equity attributable to owners of the Company		2,773,051	2,536,180
Non-controlling interests		<u>484,213</u>	<u>492,860</u>
<b>Total equity</b>		<u>3,257,264</u>	<u>3,029,040</u>

The condensed consolidated financial statements on page 27 to 61 were approved and authorized for issue by the Board of Directors on August 11, 2017 and are signed on its behalf by:

**Bai Xiaojiang**  
DIRECTOR

**Wang Jisheng**  
DIRECTOR

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	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, 2016(Audited)	126,601	1,190,533	84,667	91,906	26,784	46,686	668,752	2,235,929	413,840	2,649,769
Profit and total comprehensive income for the period	—	—	—	—	—	—	177,930	177,930	55,200	233,130
Acquisition of non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	(34)	(34)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(48,000)	(48,000)
Dividends recognized as distributions (note 10)	—	(42,244)	—	—	—	—	—	(42,244)	—	(42,244)
Exercise of share options	394	8,659	—	—	—	(3,969)	—	5,084	—	5,084
Share based compensation	—	—	—	—	—	18,360	—	18,360	—	18,360
At June 30, 2016 (Unaudited)	<u>126,995</u>	<u>1,156,948</u>	<u>84,667</u>	<u>91,906</u>	<u>26,784</u>	<u>61,077</u>	<u>846,682</u>	<u>2,395,059</u>	<u>421,006</u>	<u>2,816,065</u>
Profit and total comprehensive income for the period	—	—	—	—	—	—	161,044	161,044	54,331	215,375
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(21,832)	(21,832)
Dividends recognized as distributions	—	(46,323)	—	—	—	—	—	(46,323)	—	(46,323)
Transfer to statutory reserve	—	—	—	9,727	—	—	(9,727)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	39,200	39,200
Disposal of Partial Interest in a subsidiary	—	—	—	—	—	—	—	—	155	155
Exercise of share options	475	12,769	—	—	—	(4,614)	—	8,630	—	8,630
Share based compensation	—	—	—	—	—	17,770	—	17,770	—	17,770
At December 31, 2016 (Audited)	<u>127,470</u>	<u>1,123,394</u>	<u>84,667</u>	<u>101,633</u>	<u>26,784</u>	<u>74,233</u>	<u>997,999</u>	<u>2,536,180</u>	<u>492,860</u>	<u>3,029,040</u>
Profit and total comprehensive income for the period	—	—	—	—	—	—	228,757	228,757	67,443	296,200
Acquisition of non-controlling interests of a subsidiary(note 29)	—	—	—	—	—	—	—	—	8,538	8,538
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(84,628)	(84,628)
Dividends recognized as distributions (note 10)	—	(48,039)	—	—	—	—	—	(48,039)	—	(48,039)
Exercise of share options	2,108	52,976	—	—	—	(19,706)	—	35,378	—	35,378
Share based compensation	—	—	—	—	—	20,775	—	20,775	—	20,775
At June 30, 2017 (Unaudited)	<u>129,578</u>	<u>1,128,331</u>	<u>84,667</u>	<u>101,633</u>	<u>26,784</u>	<u>75,302</u>	<u>1,226,756</u>	<u>2,773,051</u>	<u>484,213</u>	<u>3,257,264</u>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	373,547	294,988
Adjustments for:		
Finance costs	4,000	5,188
Interest income	(18,854)	(17,907)
Depreciation of property and equipment	15,355	14,893
Amortization of cemetery assets	19,107	17,506
Amortization of intangible assets and prepaid lease payments	721	557
Amortization of other long-term assets	300	300
Net loss (gain) on disposal of property and equipment	42	(64)
Expense recognized in respect of equity-settled share based payments	20,775	18,360
Share of profit of a joint venture	(398)	—
Operating cash flows before movements in working capital	414,595	333,821
Increase in restricted deposits	(4,907)	(2,372)
Increase in cemetery assets and inventories	(24,214)	(33,129)
Increase in trade and other receivables	(599)	(8,407)
Increase (decrease) in trade and other payables	4,380	(30,199)
Increase in deferred income	24,752	16,061
Cash generated from operations	414,007	275,775
Income taxes paid	(91,857)	(64,255)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>322,150</b>	<b>211,520</b>
<b>INVESTING ACTIVITIES</b>		
Additions to and deposits paid for property and equipment	(46,514)	(31,116)
Prepayments and purchase of intangible assets	(2,557)	(72)
Proceeds on disposal of property and equipment	61	491
Placement of performance bond for a new project	—	(8,261)
Acquisition of subsidiaries	(28,377)	—
Deposit for acquisition of a subsidiary	—	(12,700)
Interest received	20,686	15,171
Advance of entrusted loan	—	(888)
Acquisition of non-controlling interests of a subsidiary	—	(34)
Dividends received from a joint venture	485	—
Withdrawal of time deposits	182,850	—
Placement of time deposits	—	(169,000)
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>126,634</b>	<b>(206,409)</b>



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>FINANCING ACTIVITIES</b>		
Repayment of bank borrowings	(2,500)	(23,500)
Repayments to non-controlling interests	(52)	—
Interest paid	(4,000)	(4,919)
Dividends paid to non-controlling interests	(62,628)	(48,000)
Dividends paid to owners of the Company	(48,039)	(42,244)
Proceeds from exercise of share options	35,378	5,084
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(81,841)</b>	<b>(113,579)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>366,943</b>	<b>(108,468)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,238,906</b>	<b>1,276,761</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>1,605,849</b>	<b>1,168,293</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 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 provision of burial services, funeral services and others services.

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

## 2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on historical cost basis except for investment property which is measured at fair value at the end of each reporting period.

The accounting policies and methods of computation used in the condensed consolidation financial statements for the six months ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statement for the year ended December 31, 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRS”) that are mandatorily effective for the current interim period.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2012-2014 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

## 4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group’s financial instruments, including the loans and receivables (including trade and other receivables, bank balances and cash, restricted deposits and time deposits) and financial liabilities (including trade and other payables, borrowings and loans from non-controlling interests), are recorded at amortized cost. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 5. SEGMENT INFORMATION

Information reported to the Group's Chief Executive 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:

- i. Burial services - sale of burial plots and provision of cemetery maintenance services.
- ii. Funeral services - planning of funeral arrangement and interment to the organization and hosting of the funeral.
- iii. Others services - including provision of landscape and garden design services; and production and sale of cremation machines and the related maintenance services.

### Segment revenues and results

	Burial services					Segment total	Eliminated	Total
	Cemetery		Sub-total	Funeral services	Others services			
	Sale of burial plots	maintenance services						
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<i>For the six months ended June 30, 2017:</i>								
External sales	682,663	11,723	694,386	73,879	1,980	770,245	—	770,245
Inter-segment sales	—	—	—	—	2,982	2,982	(2,982)	—
<b>Total</b>	<b>682,663</b>	<b>11,723</b>	<b>694,386</b>	<b>73,879</b>	<b>4,962</b>	<b>773,227</b>	<b>(2,982)</b>	<b>770,245</b>
Segment profit	567,834	1,663	569,497	46,344	929	616,770	(572)	616,198
Other income and gains, net								23,781
Distribution and selling expenses								(117,852)
Administrative expenses								(144,978)
Share of profit of a joint venture								398
Finance costs								(4,000)
Profit before taxation								<u>373,547</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 5. SEGMENT INFORMATION – *continued*

### Segment revenues and results – *continued*

	Burial services							
	Cemetery			Funeral services	Others services	Segment total	Eliminated	Total
	Sale of burial plots	maintenance services	Sub-total					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<i>For the six months ended June 30, 2016:</i>								
External sales	561,928	8,228	570,156	70,071	1,314	641,541	—	641,541
Inter-segment sales	—	—	—	—	1,611	1,611	(1,611)	—
Total	561,928	8,228	570,156	70,071	2,925	643,152	(1,611)	641,541
Segment profit	461,673	545	462,218	43,761	620	506,599	(248)	506,351
Other income and gains, net								26,010
Distribution and selling expenses								(101,699)
Administrative expenses								(130,486)
Finance costs								(5,188)
Profit before taxation								<u>294,988</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, share of profit of a joint venture and finance costs. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. 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, 2017

## 6. OTHER INCOME AND GAINS, NET

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other income:		
Interest income on bank deposits	18,854	17,907
Management service income	1,304	1,304
Government grants	5,506	4,810
	<u>25,664</u>	<u>24,021</u>
Net gains and losses:		
Net (loss) gain on disposal of property and equipment	(42)	64
Donation	(28)	(40)
Exchange (loss) gain	(1,831)	1,752
Others	18	213
	<u>(1,883)</u>	<u>1,989</u>
Other income and gains, net	<u><u>23,781</u></u>	<u><u>26,010</u></u>

## 7. FINANCE COSTS

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest expense on bank borrowings	3,187	4,221
Interest expense on loans from non-controlling interests (Note 32)	813	967
	<u>4,000</u>	<u>5,188</u>
Total finance costs	<u><u>4,000</u></u>	<u><u>5,188</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	136,412	115,668
Retirement benefits scheme contributions	8,432	7,309
Share based payments expenses	20,775	18,360
Total staff costs	165,619	141,337
Auditors' remuneration	1,000	1,000
Depreciation of property and equipment	15,355	14,893
Cost of inventories recognized as an expense	97,134	78,622
Amortization of intangible assets and prepaid lease payments (included in administrative expenses)	721	557
Amortization of cemetery assets(included in cost of sales and services)	19,107	17,506
Amortization of other long-term assets	300	300
Operating lease rentals	7,748	5,016

## 9. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("PRC EIT")	78,634	70,628
Over provision in prior years	(325)	(5,345)
Deferred tax (Note 18)	(962)	(3,425)
	77,347	61,858

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 9. INCOME TAX EXPENSE – *continued*

Under the Law of the PRC on Enterprise Income Tax (“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”), Chongqing Baitayuan Funeral and Burial Development Co., Ltd. (“Chongqing Baitayuan”) and Chongqing Anle Funeral Services Company Limited (“Chongqing Anle Funeral Services”), 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 EIT LAW. The preferential tax rate for Chongqing Anle Services, Chongqing Baitayuan and Chongqing Anle Funeral Services is effective until 2020.

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 entities did not have assessable profit earned in or derived from Hong Kong during the six months periods ended June 30, 2017 and 2016.

## 10. DIVIDENDS

	For the six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Dividends for ordinary shareholders of the Company recognized as distribution during the period 2016 Final – HK2.60 cents (2016: 2015 final dividend – HK2.39 cents) per share	<b>48,039</b>	42,244

Subsequent to the end of the current interim period, the Directors have declared that an interim dividend of HK3.24 cents per share (2016: HK2.57 cents per share) will be paid to the shareholders of the Company whose names appear in the Register of Members at the close of business on September 4, 2017.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 11. EARNINGS PER SHARE

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

	For the six months ended June 30,	
	2017 (Unaudited)	2016 (Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>228,757</u>	<u>177,930</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,111,325,389</b>	2,090,150,768
Effect of dilutive potential ordinary shares:		
Share options	<u>39,425,634</u>	<u>65,424,502</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>2,150,751,023</b></u>	<u>2,155,575,270</u>

The computation of diluted earnings per share for the six months ended June 30, 2017 and 2016 does not assume the exercise of some of the Company's options because the exercise price is higher than the weighted average market price.

## 12. PROPERTY AND EQUIPMENT

During the period, the Group acquired property and equipment of approximately RMB55,619,000 (six months ended June 30, 2016: RMB30,440,000), among which RMB744,000 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 RMB103,000 (six months ended June 30, 2016: RMB427,000) for cash proceeds of approximately RMB61,000 (six months ended June 30, 2016: RMB491,000) resulting in a loss on disposal of approximately RMB42,000 (six months ended June 30, 2016: gain of RMB64,000).

As at June 30, 2017, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB92,560,000 (December 31, 2016: RMB94,329,000) had not been obtained.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 13. INVESTMENT PROPERTY

### FAIR VALUE

At January 1, 2017

Net increased in fair value recognized in profit of loss

At June 30, 2017

RMB'000

6,509

—

6,509

The Group's property held for capital appreciation purposes is accounted for as investment property and measured at fair value, using direct comparison method.

In the opinion of the Directors, the fair value of investment property as of June 30, 2017 appropriates to the carrying value.

## 14. GOODWILL

The movement of goodwill as at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
COST		
At the beginning of the period/year	290,634	267,661
Arising on acquisition of a subsidiary (Note 29)	23,451	22,973
At the end of the period/year	<u>314,085</u>	<u>290,634</u>

The carrying amounts of goodwill as at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
Haigang Fu Shou Yuan	9,595	9,595
Jinzhou Maoshan Anling	3,738	3,738
Henan Fu Shou Yuan	14,769	14,769
Chongqing Baitayuan	47,458	47,458
Meilin Century Cemetery	18,899	18,899
Guanlingshan Cultural Cemetery	47,245	47,245
Wuyuan Wanshoushan Cemetery	36,107	36,107
Anyang Tianshouyuan Cemetery	2,425	2,425
Changzhou Qifengshan Cemetery	87,425	87,425
Zaozhuang Shanting Xingtai	22,973	22,973
Luoyang Xianhe Cemetery	23,451	—
	<u>314,085</u>	<u>290,634</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 15. CEMETERY ASSETS

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Land costs	784,014	712,277
Landscape facilities	173,461	151,720
Development cost	249,969	240,534
	<u>1,207,444</u>	<u>1,104,531</u>

## 16. INVESTMENT IN A JOINT VENTURE

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Cost of investments in a joint venture	30,000	30,000
Share of post-acquisition profits, net of dividend received	398	485
	<u>30,398</u>	<u>30,485</u>

Pursuant to the joint venture arrangement, the net profit generated from the joint venture will be shared between the Group and the other venture as to 51% and 49%, respectively. The joint venture is engaged in sale of burial plots.

### Information of a joint venture that is not material

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
The Group's share of profit and total comprehensive income for the period	<u>398</u>	<u>485</u>
Dividends received during the period	<u>485</u>	<u>—</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 17. RESTRICTED DEPOSITS

Restricted deposits represent the deposits which are placed in designated joint named bank accounts with local funeral associations and carry variable-rate interest by reference to the People's Bank of China benchmark rate. In accordance with the requirements of local authorities, the balances are provided based on certain percentages of cemetery sales of certain subsidiaries for the use of cemetery maintenance. The restricted deposits can be drawn annually with a cap based on the certain percentages of cemetery maintenance costs incurred in the preceding year.

## 18. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the six months ended June 30, 2017:

	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, 2016 (audited)	23,429	4,166	1,928	(90,042)	(60,519)
Credit (charge) to profit or loss	3,591	—	(1,928)	1,762	3,425
At June 30, 2016 (unaudited)	27,020	4,166	—	(88,280)	(57,094)
Acquisition of a subsidiary	—	—	—	(2,903)	(2,903)
Credit (charge) to profit or loss	(4,211)	538	—	2,041	(1,632)
At December 31, 2016 (audited)	<b>22,809</b>	<b>4,704</b>	—	<b>(89,142)</b>	<b>(61,629)</b>
Acquisition of a subsidiary	—	—	—	(750)	(750)
Credit (charge) to profit or loss	1,270	(1,517)	—	1,209	962
At June 30, 2017 (unaudited)	<b>24,079</b>	<b>3,187</b>	—	<b>(88,683)</b>	<b>(61,417)</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 tax bureau. The following is the analysis of the deferred tax balances for financial reporting purposes:

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 18. DEFERRED TAXATION – *continued*

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Deferred tax assets	27,266	27,513
Deferred tax liabilities	<b>(88,683)</b>	(89,142)
	<b><u>(61,417)</u></b>	<b><u>(61,629)</u></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.

## 19. OTHER LONG-TERM ASSETS

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Prepayments for management service (note 1)	13,500	13,800
Prepayments for intangible assets (note 2)	<b>1,210</b>	—
	<b><u>14,710</u></b>	<b><u>13,800</u></b>

Note 1: Prepayments for management service represent contract fee prepaid to a third party in accordance with a management service agreement, pursuant to which the Group is entitled to provide management service to a cemetery owned by the third party, and to obtain fee from the services provided. The prepayments are amortized over the agreed service period.

Note 2: Prepayments for intangible assets were paid to build cemetery management system.

## 20. INVENTORIES

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Burial Plots	263,961	260,301
Tombstone	79,266	83,294
Others	<b>39,805</b>	28,812
	<b><u>383,032</u></b>	<b><u>372,407</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 21. TRADE AND OTHER RECEIVABLES

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Trade receivables	<b>16,965</b>	19,038
Other receivables comprise:		
Prepayments and rental deposits on properties	<b>3,994</b>	3,009
Performance bond for a new project	—	8,261
Staff advances	<b>2,237</b>	1,507
Entrusted loan (note)	<b>13,950</b>	14,400
Management service income receivable	<b>572</b>	1,200
Interest receivables	<b>2,387</b>	4,219
Others	<b>15,709</b>	11,320
	<b>55,814</b>	62,954

Note: As of June 30, 2017, the Group has advanced a loan amounting to RMB13,950,000 (December 31, 2016: RMB14,400,000) to a cemetery for which the Group is providing management services. The entrusted loan is interest-free and repayable within one year.

The Group ordinarily demands its customers for full cash settlement prior to or upon the delivery of burial services, funeral services and others services (other than sales of cremation machines) and therefore the Group does not maintain any material trade receivables. Before accepting any new customer for sales of cremation machines, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 21. TRADE AND OTHER RECEIVABLES – *continued*

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

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
0 - 180 days	—	10,266
181 - 365 days	<b>9,543</b>	—
Over one year but less than two years	<b>7,422</b>	8,772
	<b>16,965</b>	19,038

Included in the Group's trade receivables are balances with aggregate carrying amount of RMB10,855,000 (December 31, 2016: RMB12,828,000) which are past due at the end of reporting period. Trade receivables amounting to RMB7,422,000 as at June 30, 2017 (December 31, 2016: RMB8,772,000) were receivable from local government in Henan Province arising from a transaction related to the tomb relocation by local government.

In determining the recoverability of the trade receivables, the Group reassesses any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the Directors are of the view that no allowance is required.

## 22. TIME DEPOSITS

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
RMB-denominated (note 1)	<b>10,000</b>	192,850
US\$-denominated (note 2)	<b>101,000</b>	101,000
	<b>111,000</b>	293,850

Note 1: As of June 30, 2017, the Group had a fixed-term deposit of RMB10 million in a bank in the PRC with maturity of six months ("Time Deposits"). The Time Deposit carry fixed interest rate of 3.80% per annum.

Note 2: On December 20, 2016, the Group placed approximately US\$14.55 million into a one-year time deposit and at the same time entered into a foreign currency forward contract with a bank in Hong Kong SAR to convert the principal together with the interest thereon to RMB at an exchange rate of US\$1 to RMB7.199773 upon maturity. Such time deposit carried a fixed interest rate of 1.8875% per annum. In the opinion of the Directors, the fair value of such foreign currency forward contract is not material.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 23. 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, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Interest rate per annum		
– RMB	<b>0.35% - 5.20%</b>	0.35% - 3.54%
– HK\$	<b>0.01% - 1.13%</b>	0.01%
– US\$	<b>0.05% - 0.44%</b>	0.05%

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

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
HK\$	<b>71,999</b>	39,290
US\$	<b>32,905</b>	33,030
	<b>104,904</b>	72,320

## 24. TRADE AND OTHER PAYABLES

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Trade payables	<b>124,819</b>	105,051
Other payables comprise:		
Advances and deposits from customers	<b>25,014</b>	27,861
Payables for acquisition of property and equipment	<b>804</b>	704
Salary, welfare and bonus payables	<b>92,554</b>	96,904
Other accrued expenses	<b>16,865</b>	12,703
Consideration for acquisition of subsidiaries	<b>38,090</b>	10,668
Dividend payable to non-controlling interest	<b>22,000</b>	—
Others	<b>37,962</b>	33,751
	<b>358,108</b>	287,642

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 24. TRADE AND OTHER PAYABLES – *continued*

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

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
0 - 90 days	41,419	30,384
91 - 180 days	23,347	19,941
181 - 365 days	32,610	27,754
Over 365 days	27,443	26,972
	<b>124,819</b>	<b>105,051</b>

The average credit period on purchases of goods is 181 to 365 days.

## 25. BORROWINGS

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Bank borrowings		
– Secured by the Group's equity interest in subsidiaries	91,520	94,020
– Unsecured	39,950	39,950
	<b>131,470</b>	<b>133,970</b>
The carrying amounts of the above borrowings are repayable*:		
Within one year	68,450	60,450
More than one year, but not exceeding two years	21,000	21,000
More than two years but not more than five years	42,020	52,520
	<b>131,470</b>	<b>133,970</b>
Less: amounts due within one year shown under current liabilities	<b>(68,450)</b>	<b>(60,450)</b>
Amounts shown under non-current liabilities	<b>63,020</b>	<b>73,520</b>

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The bank borrowings carried interest at 4.35% to 4.998% per annum (December 31, 2016: 4.35% to 4.998%).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 25. BORROWINGS – *continued*

The carrying amounts of the Group's assets that were secured against the Group's borrowings are set out below:

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Carrying amount of the Group's equity interest in subsidiaries	<b>130,354</b>	117,366

## 26. 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, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Carrying amount analyzed as:		
Amounts shown under current liabilities	<b>23,812</b>	18,200
Amounts shown under non-current liabilities	<b>242,210</b>	223,070
	<b>266,022</b>	241,270

During the six month period ended June 30, 2017, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB11,723,000 (six month period ended June 30, 2016: RMB8,228,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 27. SHARE CAPITAL

	Number of shares	Amount US\$
Ordinary shares of US\$0.01 each		
Authorized:		
At June 30, 2017, December 31, 2016 and January 1, 2016	<u>20,000,000,000</u>	<u>200,000,000</u>

### Issued and fully paid:

	Number of shares	Amount US\$	Share capital RMB'000
At January 1, 2016 (Audited)	2,089,293,446	20,892,934	126,601
Exercise of share options	<u>6,016,000</u>	<u>60,160</u>	<u>394</u>
At June 30, 2016 (Unaudited)	2,095,309,446	20,953,094	126,995
Exercise of share options	<u>7,048,281</u>	<u>70,483</u>	<u>475</u>
At December 31, 2016 (Audited)	2,102,357,727	21,023,577	127,470
Exercise of share options (Note 28)	<u>30,821,564</u>	<u>308,216</u>	<u>2,108</u>
At June 30, 2017 (Unaudited)	<u>2,133,179,291</u>	<u>21,331,793</u>	<u>129,578</u>

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, 2017

## 28. SHARE BASED COMPENSATION

### Pre-IPO Share Option Scheme

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

On August 8, 2013, 57,613,169 share options under the Pre-IPO Share Option Scheme were granted to the Directors and employees of the Group under the following terms:

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

<b>Exercise Period</b>	<b>Maximum percentage of share underlying the option exercisable</b>
From August 8, 2015 to August 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 28. SHARE BASED COMPENSATION – continued

### Pre-IPO Share Option Scheme – continued

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the six months period ended June 30, 2017:

	Date of grant	Exercise price per Share (HKD)	Options outstanding as at January 1, 2017	Number of options			Options outstanding as at June 30, 2017
				Granted during the six months ended June 30, 2017	Exercised during the six months ended June 30, 2017	Forfeited during the six months ended June 30, 2017	
<b>Directors</b>							
Bai Xiaojiang	August 8, 2013	1	3,453,452	—	(3,453,452)	—	—
Wang Jisheng	August 8, 2013	1	3,453,452	—	(3,453,452)	—	—
			6,906,904	—	(6,906,904)	—	—
Other employees	August 8, 2013	1	24,278,538	—	(20,327,660)	—	3,950,878
Total			31,185,442	—	(27,234,564)	—	3,950,878
Exercisable at December 31			31,185,442				3,950,878
Weighted average exercise price (HK\$)			1	—	1	—	1

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise is HK\$4.93 (2016: HK\$5.56).

The estimated fair value of share options granted was approximately RMB37,849,000, which was calculated using the Binomial model. The Group recognised the total expense of nil (for the six month period ended June 30, 2016: RMB3,141,000) for the six month period ended June 30, 2017 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

### 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”).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

#### *Granted on August 5, 2014*

On August 5, 2014, the Company granted 42,000,000 share options (the “Share Option A”) to the Directors and employees of the Group under the following terms:

- (1) All Share Option A granted are at an exercise price of HK\$4.14 per share.
- (2) All Share Option A granted to the employees under the Share Option Scheme can only be exercised in the following manners:

<b>Exercise Period</b>	<b>Maximum percentage of share underlying the option exercisable</b>
From August 5, 2016 to August 4, 2018	50% of the total number of shares underlying the options granted.
From August 5, 2017 to August 4, 2018	50% of the total number of shares underlying the options granted.

- (3) All Share Option A granted to Directors under the Share Option Scheme can only be exercised in the following manners:

<b>Exercise Period</b>	<b>Maximum percentage of share underlying the option exercisable</b>
From August 5, 2016 to August 4, 2024	50% of the total number of shares underlying the options granted.
From August 5, 2017 to August 4, 2024	50% of the total number of shares underlying the options granted.

The fair value of the Options A granted to Directors and employees at grant date are HK\$1.27 per share and HK\$0.78 per share respectively, which is determined using a binomial option pricing model. The inputs into the model were as follows:

	<b>Employee</b>	<b>Directors</b>
Share price	HK\$4.14	HK\$4.14
Exercise price	HK\$4.14	HK\$4.14
Expected volatility	24.4%	24.4%
Option life	4 years	10 years
Dividend yield	1%	1%
Risk-free interest rate	1.1365%	2.0520%
Forfeiture rate	5%	—

The risk-free interest rates were based on market yield rate of Hong Kong Government Bond with maturity with 4 years and 10 years as of the date of grant, respectively.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

#### *Granted on August 5, 2014 – continued*

Expected volatility was determined based on the historical share price volatility. 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 Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

#### *Granted on March 19, 2015*

On March 19, 2015, the Company granted 50,000,000 share options (the "Share Option B") to the Directors and employees of the Group under the following terms:

- (1) All Share Option B granted are at an exercise price of HK\$3.126 per share.
- (2) All Share Option B 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 value of the Option B at grant date is HK\$0.47 per share, representing RMB18,020,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

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 risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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 Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

#### *Granted on March 24, 2016*

On March 24, 2016, the Company granted 48,000,000 share options (the “Share Option C”) to the Directors and employees of the Group under the following terms:

- (1) All Share Option C granted are at an exercise price of HK\$5.824 per share.
- (2) All Share Option C 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 24, 2018 to March 23, 2020	50% of the total number of shares underlying the options granted.
From March 24, 2019 to March 23, 2020	50% of the total number of shares underlying the options granted.

The fair value of the Option C at grant date is HK\$1.21 per share, representing RMB48,592,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK\$5.52
Exercise price	HK\$5.824
Expected volatility	34.34%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	0.99%
Forfeiture rate	4.30%

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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 Directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

#### *Granted on May 16, 2016*

On May 16, 2016, the Company granted 2,000,000 share options (the “Share Option D”) to the Directors under the following terms:

- (1) All Share Option D granted are at an exercise price of HK\$5.466 per share.
- (2) All Share Option D granted can only be exercised in the following manners:

<b>Exercise Period</b>	<b>Maximum percentage of share underlying the option exercisable</b>
From April 27, 2018 to April 26, 2020	50% of the total number of shares underlying the options granted.
From April 27, 2019 to April 26, 2020	50% of the total number of shares underlying the options granted.

The fair value of the Option D at grant date is HK\$1.32 per share, representing RMB2,207,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK\$5.460
Exercise price	HK\$5.466
Expected volatility	33.6%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	0.86%
Forfeiture rate	—

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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 Directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

#### *Granted on March 20, 2017*

On March 20, 2017, the Company granted 50,000,000 share options (the “Share Option E”) to the Directors and employees of the Group under the following terms:

- (1) All Share Option E granted are at an exercise price of HK\$4.850 per share.
- (2) All Share Option E 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 20, 2019 to March 19, 2021	50% of the total number of shares underlying the options granted.
From March 20, 2020 to March 19, 2021	50% of the total number of shares underlying the options granted.

The fair value of the Option E at grant date is HK\$1.00 per share, representing RMB44,301,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK\$4.850
Exercise price	HK\$4.850
Expected volatility	29.22%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	1.41%
Forfeiture rate	3.83%

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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 Directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 28. SHARE BASED COMPENSATION – continued

### Share Option Scheme – continued

Set out below are details of movements of the outstanding options in relation to Share Option A to E granted under the Share Option Scheme during the six months period ended June 30, 2017:

	Batch	Date of grant	Exercise price per Share (HK\$)	Options outstanding as at January 1, 2017	Number of options			Options outstanding as at June 30, 2017
					Granted during the six months ended June 30, 2017	Exercised during the six months ended June 30, 2017	Forfeited during the six months ended June 30, 2017	
<b>Directors</b>								
Bai Xiaojiang	Share Option A	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	Share Option B	March 19, 2015	3.126	3,000,000	—	—	—	3,000,000
	Share Option C	March 24, 2016	5.824	2,000,000	—	—	—	2,000,000
	Share Option D	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	Share Option E	March 20, 2017	4.850	—	5,000,000	—	—	5,000,000
Wang Jisheng	Share Option A	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	Share Option B	March 19, 2015	3.126	3,000,000	—	—	—	3,000,000
	Share Option C	March 24, 2016	5.824	2,000,000	—	—	—	2,000,000
	Share Option D	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	Share Option E	March 20, 2017	4.850	—	5,000,000	—	—	5,000,000
Tan Leon Li-an	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
	Share Option C	March 24, 2016	5.824	500,000	—	—	—	500,000
Ma Xiang	Share Option C	March 24, 2016	5.824	500,000	—	—	—	500,000
Lu Hesheng	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
	Share Option B	March 19, 2015	3.126	500,000	—	—	—	500,000
	Share Option C	March 24, 2016	5.824	500,000	—	—	—	500,000
	Share Option E	March 20, 2017	4.850	—	500,000	—	—	500,000
Huang James								
Chih-Cheng	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
Chen Qunlin	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	300,000	—	—	—	300,000
	Share Option E	March 20, 2017	4.850	—	300,000	—	—	300,000
Luo Zhuping	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	300,000	—	—	—	300,000
	Share Option E	March 20, 2017	4.850	—	300,000	—	—	300,000

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 28. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

	Batch	Date of grant	Exercise price per Share (HK\$)	Options outstanding as at January 1, 2017	Number of options			Options outstanding as at June 30, 2017
					Granted during the six months ended June 30, 2017	Exercised during the six months ended June 30, 2017	Forfeited during the six months ended June 30, 2017	
<b>Directors</b>								
Ho Man	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	300,000	—	—	—	300,000
	Share Option E	March 20, 2017	4.850	—	300,000	—	—	300,000
Wu Jianwei	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	300,000	—	—	—	300,000
	Share Option E	March 20, 2017	4.850	—	300,000	—	—	300,000
				22,400,000	11,700,000	—	—	34,100,000
Other employees	Share Option A	August 5, 2014	4.14	34,270,000	—	(1,758,000)	—	32,512,000
	Share Option B	March 19, 2015	3.126	42,300,000	—	(1,829,000)	—	40,471,000
	Share Option C	March 24, 2016	5.824	41,300,000	—	—	—	41,300,000
	Share Option E	March 20, 2017	4.850	—	38,300,000	—	—	38,300,000
Total				140,270,000	50,000,000	(3,587,000)	—	186,683,000
Exercisable at June 30				19,670,000				41,083,000
Weighted average exercise price (HK\$)				4.37	4.85	3.62	N/A	4.52

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise is HK\$4.93.

The Group recognized the total expense of approximately RMB20,775,000 (for the six month ended June 30, 2016: RMB15,219,000) for the six month ended June 30, 2017 in relation to Share Option A to E granted by the Company under Share Option Scheme.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 29. ACQUISITION OF A SUBSIDIARY

On September 28, 2016, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, entered into an agreement with an independent third party not connected to the Group to acquire 80% equity interest in Luoyang Xianhe Cemetery for a cash consideration of RMB57,600,000. Luoyang Xianhe Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed in January 2017.

Based on a preliminary purchase price allocation assessed by the Directors, the net assets and goodwill acquired in the transaction are determined on a provisional basis as follows:

	<b>RMB'000</b>
Property and equipment	744
Cemetery assets	36,187
Inventories	16,891
Other receivables	458
Bank balances and cash	1,801
Trade and other payables	(8,644)
Deferred tax	(750)
Other long-term liabilities	(4,000)
	<hr/>
	42,687
Non-controlling interest	(8,538)
Goodwill	23,451
	<hr/>
Net assets acquired	<u>57,600</u>
Satisfied by:	
Cash paid in the six months ended June 30, 2017	28,800
Consideration payable	28,800
	<hr/>
Cash consideration	<u>57,600</u>
Cash paid upon completion of the acquisition	28,800
Less: bank balances and cash acquired	1,801
	<hr/>
Net cash outflow arising on acquisition:	<u>26,999</u>

Goodwill arose in the acquisition of Luoyang Xianhe Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Luoyang Xianhe 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 period is a profit of approximately RMB2,762,000 which is attributable to Luoyang Xianhe Cemetery.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

## 30. 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 properties and land which fall due as follows:

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 RMB'000 (Audited)
Within one year	10,180	6,670
In the second to fifth years inclusive	13,852	9,420
After five years	7,914	7,741
	<b>31,946</b>	<b>23,831</b>

The lease terms ranged from one year to twenty years.

## 31. CAPITAL COMMITMENTS

	<b>June 30, 2017 RMB'000 (Unaudited)</b>	December 31, 2016 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	50,374	33,173
– authorized but not yet contracted for	217,300	330,000
	<b>267,674</b>	<b>363,173</b>
Capital expenditure in respect of the acquisition of subsidiaries:		
– contracted for but not provided in the condensed consolidated financial statements	—	57,600

## 32. LOANS FROM NON-CONTROLLING INTERESTS

The balance represents the loan from Shandong World Trade Centre (山東世界貿易中心) carried fixed interest rate at 4.785% (December 31, 2016: 5.06%) per annum as at June 30, 2017.

As at June 30, 2017 and December 31, 2016, 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 period end. Accordingly, the amount is shown as non-current as at June 30, 2017 and December 31, 2016.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017



## 33. CONTINGENT LIABILITIES

Before the completion of the acquisition of Wuyuan Wanshoushan Cemetery in 2015, Mr. Liang Lihua (梁利華) (“Mr. Liang”), the selling shareholder of the 75% equity interest who is now still holding the remaining 25% equity interest as the non-controlling interests in Wuyuan Wanshoushan Cemetery, entered into unauthorized transactions on behalf of Wuyuan Wanshoushan Cemetery to guarantee some of his personal loans, thereby incurring potential guarantee liability for Wuyuan Wanshoushan Cemetery. Mr. Liang had also allegedly transferred some of his other personal loans to Wuyuan Wanshoushan Cemetery without any proper corporate authorizations. Mr. Liang had not disclosed any of the abovementioned loans and guarantees to the Group before the completion of the acquisition of Wuyuan Wanshoushan Cemetery.

As of the date of these condensed consolidated financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery (together the “Creditors”) brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the “Proceedings”) of which 6 were either settled, subsequently withdrawn or concluded by the Province People’s Courts resulting a RMB1.7 million net settlement paid/payable by the Group. During the period, the change situation of the Proceedings are disclosed as follows:

- 2 claims over RMB1 million have been settled by the People’s Courts with awards in favour of Wuyuan Wanshoushan Cemetery and;
- 1 claim over RMB6 million have been dropped by the plaintiff on March 9, 2017 and have been appealed against Wuyuan Wanshoushan Cemetery again on April 27, 2017.

The total claims on the remaining 6 (December 31, 2016: 8) Proceedings (the “Remaining Proceedings”), where appropriate, including the interest accrued up to the date of these financial statements, amounting to RMB50 million.

As of the date of these financial statements, after taking into account of the legal opinions by independent PRC legal counsel and the current status of the Remaining Proceedings, the Directors are of the view that the Remaining Proceedings will in the end result in a material adverse impact on the financial position and business operation of the Group is not probable and conclude that no provision shall necessarily be made. However, given the nature of the Remaining Proceedings, it would be impossible to predict the outcome of the appeal proceedings with a sufficient degree of certainty.

# 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
“Changzhou Qifengshan Cemetery”	a cemetery in Changzhou City of Jiangsu Province and operated by Changzhou Qifengshan International Cemetery Co., Ltd.*(常州棲鳳山國際文化陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this report, 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 Yongchuan of Chongqing Municipality 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” or “Fu Shou Yuan”	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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

# DEFINITIONS



“Director(s)”	the director(s) of the Company
“Double Riches”	Double Riches Investments Limited, a limited liability company incorporated in the BVI on October 28, 2011, and one of our Shareholders
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“FSG Holding”	FSG Holding Corporation, a company incorporated in BVI on December 6, 2011 and one of the Company’s Shareholders
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
“Global Offering” or “IPO”	the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013
“Group”, “our Group”, “us” or “we” 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 by Shanghai Nanyuan Industrial Development Co. Ltd.* (上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company
“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
“Hongfu”	Shanghai Hongfu Investment Development Co., Ltd.* (上海鴻福投資發展有限公司), a limited liability company established in the PRC on November 28, 2000 and owned as to 50% by NGO 1 and 50% by NGO 2, one of the Company’s Shareholders

# DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huaibei Fangshan Cemetery”	A cemetery in Huaibei City of Anhui Province and operated by Huaibei Fu Shou Yuan Memorial Park Co., Ltd.* (淮北福壽園紀念陵有限責任公司), a limited company established under laws of the PRC and a joint venture of the Company
“Jinzhou Maoshan Anling”	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City MaoshanAnling 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 Date”	December 19, 2013, the date on which dealings in the Shares first commence 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)
“Luoyang Xianhe Cemetery”	A cemetery in Luoyang City of Henan Province and operated by Luoyang Xianhe Memorial Cemetery Co., Ltd.* (洛陽仙鶴紀念陵園有限公司), a limited company established under the PRC and a subsidiary of the Company since January 2017
“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
“NGO 1”	Shanghai Zhongmin Elderly Affairs Development Service Centre* (上海中民老齡事業開發服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on facility developments, and one of the Company’s indirect Shareholders

## DEFINITIONS



“NGO 2”	Shanghai Zhongmin Elderly Affairs Consultancy Service Centre* (上海中民老齡事業諮詢服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Qingpu Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on advisory services, and one of the Company’s indirect Shareholders
“Period”	the six months ended June 30, 2017
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company on March 10, 2013
“Prospectus”	the prospectus of the Company dated December 9, 2013
“RMB”	Renminbi yuan, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Same Period of last year”	the six months ended June 30, 2016
“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 FSU 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
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“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

# DEFINITIONS

“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US dollar”	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
“Zaozhuang Shanting Xingtai”	Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
“Zhongfu”	China Zhongfu Industrial Co., Ltd.* (中國中福實業有限公司), formerly known as China Zhongfu Industrial Corporation (中國中福實業總公司), a limited liability company established in the PRC on July 15, 1985 and directly wholly-owned by Hongfu, and one of the Company’s Shareholders
“%”	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.