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Fu Shou Yuan International Group Limited

福壽園國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

2017 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the year ended December 31, 2017 amounted to approximately RMB1,477.2 million, representing an increase of approximately 16.5% compared with the year ended December 31, 2016.
- Profit and total comprehensive income attributable to owners of the Company amounted to approximately RMB417.4 million, representing an increase of approximately 23.1% compared with the year ended December 31, 2016.
- Basic earnings per Share amounted to approximately RMB19.6 cents, representing an increase of approximately 21.0% compared with the year ended December 31, 2016.
- The Board proposed a final dividend of HK3.24 cents per Share for the year ended December 31, 2017.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the audited consolidated annual financial results of the Group for the year ended December 31, 2017 together with the comparative figures for the year ended December 31, 2016 as set out below. The consolidated results are audited and have been reviewed by the Audit Committee.

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

FOR THE YEAR ENDED DECEMBER 31, 2017

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	4	1,477,208	1,267,655
Cost of sales and services		<u>(292,316)</u>	<u>(265,303)</u>
Gross profit		1,184,892	1,002,352
Other income and gains, net	5	58,805	58,823
Distribution and selling expenses		(250,830)	(217,517)
Administrative expenses		(292,896)	(278,874)
Share of profits of a joint venture		398	485
Finance costs		<u>(15,585)</u>	<u>(8,256)</u>
Profit before taxation	6	684,784	557,013
Income tax expense	7	<u>(134,611)</u>	<u>(108,508)</u>
Profit and total comprehensive income for the year		<u>550,173</u>	<u>448,505</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		417,350	338,974
Non-controlling interests		<u>132,823</u>	<u>109,531</u>
		<u>550,173</u>	<u>448,505</u>
		RMB	RMB
		cents	cents
Earnings per share - Basic	8	<u>19.6</u>	<u>16.2</u>
- Diluted	8	<u>19.3</u>	<u>15.7</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets			
Property and equipment	9	478,753	377,429
Prepaid lease payment		20,016	21,620
Investment property		6,509	6,509
Intangible assets		17,198	14,035
Goodwill	10	360,274	290,634
Deposits paid for acquisition of land use rights		16,160	49,329
Cemetery assets	11	1,244,821	1,104,531
Investment in a joint venture		—	30,485
Restricted deposits		38,750	32,216
Deferred tax assets	18	38,039	27,513
Other long-term assets		<u>20,835</u>	<u>13,800</u>
		<u>2,241,355</u>	<u>1,968,101</u>
Current assets			
Inventories	12	426,381	372,407
Trade and other receivables	13	47,307	62,954
Time deposits		10,000	293,850
Bank balances and cash	14	<u>1,936,992</u>	<u>1,238,906</u>
		<u>2,420,680</u>	<u>1,968,117</u>
Current liabilities			
Trade and other payables	15	390,895	287,642
Deferred income	17	22,617	18,200
Loans from non-controlling shareholders of subsidiaries		10,039	—
Income tax liabilities		120,544	114,884
Borrowings	16	<u>60,500</u>	<u>60,450</u>
		<u>604,595</u>	<u>481,176</u>
Net current assets		<u>1,816,085</u>	<u>1,486,941</u>
Total assets less current liabilities		<u>4,057,440</u>	<u>3,455,042</u>

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current liabilities			
Deferred income	17	258,564	223,070
Other long-term liabilities		13,593	5,910
Loans from non-controlling shareholders of subsidiaries		41,525	34,360
Borrowings	16	52,520	73,520
Deferred tax liabilities	18	<u>86,734</u>	<u>89,142</u>
		<u>452,936</u>	<u>426,002</u>
Net assets		<u>3,604,504</u>	<u>3,029,040</u>
Capital and reserves			
Share capital		131,666	127,470
Reserves		<u>2,886,497</u>	<u>2,408,710</u>
Equity attributable to owners of the Company		3,018,163	2,536,180
Non-controlling interests		<u>586,341</u>	<u>492,860</u>
Total equity		<u>3,604,504</u>	<u>3,029,040</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 have been listed on the Stock Exchange since December 19, 2013. The address of the registered office of the Company is Estera Trust (Cayman) Limited at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and the address of the principal place of business in Hong Kong of the Company is Unit 709, 7/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong. The Group is mainly engaged in the provision of burial services, funeral services and other services.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The application of the amendments to IFRSs in the Year has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property which is measured at fair values at the end of each reporting period in accordance with the accounting policies set out below which are in conformity with IFRSs.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

The Group enters into contracts with its customers for the provision of burial services, which include the sale of burial plots and cemetery maintenance services.

Revenue from the sale of burial plots is recognized when the right to use burial plots has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the burial plots;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the burial plots sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of cemetery maintenance services is deferred and amortized on a straight-line basis over the remaining service period. The contract price for the cemetery maintenance services is based on a nominal amount, which does not represent the fair value of such services. The Group estimates the fair value of the cemetery maintenance services income to be deferred based on the expected cost of providing such cemetery maintenance services plus a reasonable margin, less total future maintenance fees to be received.

Funeral and other services income are recognized when services are provided.

4. SEGMENT INFORMATION

The Group's revenue was derived from various products and services provided by the Group. The details are as follows:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Burial Services		
Sale of burial plots		
Customized burial (note (a))	340,825	274,499
Artistic burial (note (b))	535,795	448,867
Traditional burial	205,456	213,522
Lawn burial (note (c))	63,724	48,954
Green burial (note (d))	24,264	15,894
Indoor burial	20,447	14,679
Other burial-related services (note (e))	87,074	76,712
Cemetery maintenance services	<u>22,460</u>	<u>18,682</u>
	1,300,045	1,111,809
Funeral services	157,855	142,288
Other services	37,138	17,480
Inter-segments elimination	<u>(17,830)</u>	<u>(3,922)</u>
	<u>1,477,208</u>	<u>1,267,655</u>

Notes:

- Customized burial refers to burial plots that the customers are able to fully personalize and customize, among others, the location, size and design and layouts of the burial plots, and the types and styles of memorials and decorative items to be used.
- Artistic burial, which allows the customers to choose from an extensive range of pre-designed and pre-fabricated memorials to be used on burial plots that are uniformed in size and landscape.
- Lawn burial refers to burial plots situated on the well-kept lawns with flower beds and/or grave markers at the head. The customers are able to choose the location of the lawn burial plots and may add photographs and/or inscriptions onto the grave markers.

- (d) Green burial refers to environmental friendly and space saving burial plots, under natural grave markers such as fieldstones, trees and flower beds, or interred into low rising wall in respective cemeteries.
- (e) Other burial-related services represent revenues from miscellaneous services such as the organization and conducting of burial rituals, the design of the tombstone, the trading of flower and additional engraving fees.

Geographical information

The following table sets forth a breakdown of the Group's revenue from burial services and funeral services by region:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Shanghai	780,296	668,445
Henan	88,265	48,429
Chongqing	70,563	83,188
Anhui	137,334	124,591
Shandong	59,718	43,015
Liaoning	174,109	188,402
Jiangxi	45,924	36,336
Fujian	33,636	26,536
Zhejiang	8,341	5,126
Jiangsu	57,017	30,029
Guangxi	<u>2,697</u>	<u>—</u>
	<u>1,457,900</u>	<u>1,254,097</u>

5. OTHER INCOME AND GAINS, NET

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	45,101	35,727
Government grants	13,316	10,721
Management service income	3,636	3,242
Exchange (loss) gain	(2,937)	4,909
Gain on a bequest from a customer	—	3,337
Fair value changes of investment property	—	3,069
Others	<u>(311)</u>	<u>(2,182)</u>
	<u>58,805</u>	<u>58,823</u>

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	267,414	231,763
Retirement benefits scheme contributions	19,578	16,685
Share based payments expenses	<u>42,538</u>	<u>36,130</u>
Total staff costs	<u>329,530</u>	<u>284,578</u>
Depreciation of property and equipment	32,134	30,361
Amortization of intangible assets and prepaid lease payments	1,524	1,107
Amortization of cemetery assets	40,347	34,515
Amortization of other long-term assets	<u>692</u>	<u>600</u>

7. INCOME TAX EXPENSE

The Group's income tax expense includes provision made for EIT and deferred income tax during the Year.

Under EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the Year with the exception of Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan, which were subject to a lower concessionary income tax rate of 15% according to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39). The preferential tax rate for Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan 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 did not have assessable profit earned in or derived from Hong Kong during the Year.

8. 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:

	2017	2016
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>417,350</u>	<u>338,974</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,131,816,548	2,094,169,808
Effect of dilutive potential ordinary shares:		
Share options	<u>33,115,282</u>	<u>58,387,175</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,164,931,830</u></u>	<u><u>2,152,556,983</u></u>

9. PROPERTY AND EQUIPMENT

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	240,381	205,768
Leasehold improvements	16,722	12,660
Furniture, fixtures and equipment	38,063	27,698
Motor vehicles	13,656	16,521
Construction in progress	<u>169,931</u>	<u>114,782</u>
	<u><u>478,753</u></u>	<u><u>377,429</u></u>

10. GOODWILL

The carrying amounts of goodwill arose from the acquisition of following subsidiaries:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
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	—
Temshine	23,433	—
Guangxi Huazuyuan	<u>22,756</u>	<u>—</u>
	<u>360,274</u>	<u>290,634</u>

11. CEMETERY ASSETS

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Land costs	805,584	712,277
Landscape facilities	170,277	151,720
Development cost	<u>268,960</u>	<u>240,534</u>
	<u>1,244,821</u>	<u>1,104,531</u>

The land costs have finite useful lives and amortized on a straight-line basis over the lease terms.

Landscape facilities represent the construction cost of arbors and bridges in the mausoleum. Amortization for landscape facilities is provided on a straight-line basis over shorter of the remaining lease term of land or useful life.

Development cost represents the cost paid for the foundation work and putting the land into the condition of ready for development of cemetery business. Amortization for development cost is provided on a straight-line basis over the estimated useful life (same as land costs over the lease terms).

Upon commencement of development of an area within the cemetery, the proportionate cemetery assets are transferred to inventory.

12. INVENTORIES

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Burial Plots	302,733	260,301
Tombstone	80,159	83,294
Others	<u>43,489</u>	<u>28,812</u>
	<u>426,381</u>	<u>372,407</u>

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	6,310	19,038
Other receivables comprise:		
Prepayments and rental deposits on properties	2,650	2,474
Performance bond for a new project	—	8,261
Staff advances	1,335	1,507
Entrusted loan (note)	12,950	14,400
Management service income receivable	2,355	1,200
Interest receivables	1,260	4,219
Others	<u>20,447</u>	<u>11,855</u>
	<u>47,307</u>	<u>62,954</u>

Note: The Group has advanced a unsecured loan to a cemetery for which the Group is providing management services.

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 180 days	—	10,266
181 - 365 days	—	—
Over one year but less than two years	6,269	8,772
Over two years but less than three years	<u>41</u>	<u>—</u>
	<u><u>6,310</u></u>	<u><u>19,038</u></u>

The Group ordinarily demands its customers for full cash settlement prior to or upon the delivery of burial services, funeral services and other services (other than sales of cremation machines) and therefore the Group does not maintain any material trade receivables. Before accepting any new customer for cremation machine, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The amount of the Group's trade receivable as at year end, mainly derived from the transaction related to the sales of our cremation machines. 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 date of this announcement. After reassessment, the Directors are of the view that no allowance is required.

14. BANK BALANCES AND CASH

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

	2017	2016
Interest rate per annum		
- RMB	0.35%-3.8%	0.35%-3.54%
- HK\$	0.01%	0.01%
- US\$	0.05%	0.05%

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	97,069	39,290
US\$	<u>31,315</u>	<u>33,030</u>
	<u><u>128,384</u></u>	<u><u>72,320</u></u>

15. TRADE AND OTHER PAYABLES

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	126,209	105,051
Other payables comprise:		
Advances and deposits from customers	23,706	27,861
Payables for acquisition of property and equipment	604	704
Salary, welfare and bonus payables	110,546	74,889
Other accrued expenses	44,965	34,718
Consideration for acquisition of subsidiaries	35,076	10,668
Others	<u>49,789</u>	<u>33,751</u>
	<u>390,895</u>	<u>287,642</u>

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	41,440	30,384
91 - 180 days	11,370	19,941
181 - 365 days	40,272	27,754
Over 365 days	<u>33,127</u>	<u>26,972</u>
	<u>126,209</u>	<u>105,051</u>

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

16. BORROWINGS

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings		
- Secured by the Group's equity interest in subsidiaries	81,020	94,020
- Unsecured	<u>32,000</u>	<u>39,950</u>
	<u>113,020</u>	<u>133,970</u>
The carrying amounts of the above borrowings are repayable:		
Within one year	60,500	60,450
More than one year, but not exceeding two years	20,830	21,000
More than two years, but not more than five years	<u>31,690</u>	<u>52,520</u>
	<u>113,020</u>	<u>133,970</u>

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

17. 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.

The Group provides on-going cemetery maintenance services as part of the burial services to maintain the landscaped cemeteries and the large number of memorials that lie on the cemeteries.

Customers who purchase burial services at certain locations are required to make advance payments for maintenance fees, relating to the maintenance of their cremation niches or burial lots and memorials over 10 to 20 years, and such amounts are generally paid together with the purchase of our burial services.

The Group keeps track of the cemetery maintenance expense for the sites and makes estimate based on the projected increases, such as increase in the labor cost and the incremental maintenance expense as a result of increase in future sales. Total estimated cemetery maintenance expense plus a reasonable margin, offset by estimated maintenance fees to be received, represent the amount of total deferred income. Total deferred income is allocated to the individual transaction to determine the amount of revenue to be deferred at each year.

18. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Time difference for certain accruals and liabilities	27,243	22,809
Unused tax losses	8,674	4,704
Fair value adjustment	<u>(84,612)</u>	<u>(89,142)</u>
	<u>(48,695)</u>	<u>(61,629)</u>

19. DIVIDENDS

During the Year, the Company has declared and paid the final dividends of HK2.60 cents per share for 2016 and interim dividends of HK3.24 cents per share for 2017, totally amounting to approximately RMB106.5 million.

On March 16, 2018, a final dividend in respect of 2017 of HK3.24 cents per share was proposed by the Directors and is subject to approval by the Shareholders in the AGM.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the 2017 full-year results of the Group.

In 2017, the Group recorded good results by continuing to deepen its core business, enhance its service quality and achieved solid performance. The Group's revenue amounted to RMB1,477.2 million, representing an increase of 16.5% compared to the same period in 2016. Net profit was RMB550.2 million, representing an increase of 22.7% compared with 2016, of which profit and total comprehensive income attributable to shareholders was RMB417.4 million, representing of an increase of 23.1% compared to the same period last year. The Board proposes a final dividend of HK3.24 cents per Share for 2017 to the Shareholders to reward all investors for their support. Together with the interim dividend of HK3.24 cents per Share distributed during the Year, the total dividend for the full year of 2017 is HK6.48 cents per Share, which is in line with the Group's committed dividend policy to reward all investors for their support.

In 2017, the Group further expanded its business locations. Currently, cemeteries and funeral facilities owned and operated by the Group cover more than 20 cities in 11 provinces, autonomous regions or municipalities across China. During the Year, we completed the acquisition of 80% equity interest in Luoyang Xianhe Cemetery, the acquisition of 60% equity interest in Guangxi Huazuyuan, and the acquisition of 51% equity interest in Temshine. We also commenced to provide funeral services in 4 funeral homes respectively in Huaibei City of Anhui Province, Tai'an City of Shandong Province, Ningde City of Fujian Province, and Lujiang County of Hefei City in Anhui Province. In April, the Group won a public bidding and entered into a framework agreement with Gaoyou Funeral Service Center in Jiangsu Province under the "BOT" model. Our projects in Bishan District of Chongqing Municipality and in Xuancheng City of Anhui Province have been under construction, and they will commence to operate shortly. Along with our expansion, the brand and the professionalism of Fu Shou Yuan tends to be recognized throughout the whole country.

In 2017, the Group has been actively promoting innovational work which brought remarkable achievements in the respect of industrial chain expansion. Our "Fu Shou Pre-need" product gained a good market response, and brought a more standardized guideline and a more transparent procedure to the pre-need service industry. We signed 1,174 contract during the Year, representing a good start in funeral presale market. It will surely become significant strategic support in funeral business. Environmental-friendly cremation machine was granted the invention patent right by

The State Intellectual Property Office of the PRC, and acquired great attention during the promotion. In December 2017, we won out a bidding supply a state owned funeral home in Shanghai with 6 sets of the machine. While occupying the market and implementing the national environmental strategy, our cremation machine will become another vital impetus of the development of the Group.

The Ministry of Civil Affairs has recently promulgated the “Guiding Opinion on further promoting the funeral and burial reform and encouraging the development of the funeral and burial industry”, which further underlines the advancing of separation of government functions from enterprise management and supervision and the deepening of marketization reform. It also improves the norm and standard of the services regarding the remains. Our Group will seize the opportunity by speeding up the cultivation of professionals, pushing on expansion with more resources, and promoting our environmental-friendly cremation machine more comprehensively.

In 2017, the Group undertakes the social responsibilities as always. We participated in various public welfare activities in multiple fields, such as cultural education, public welfare, disaster relief, charity and poverty alleviation, and environment protection. In November 2017, the Group won the award of “National Model Organization” at the Fifth National Commendation Conference of Spiritual Civilization Construction. At the 7th China Charity Festival, the Group “the 2017 Eco-Friendliness Model Award”, and Shanghai Fu Shou Yuan and Shandong Fu Shou Yuan received “the 2017 Charity Practice Award” and “the 2017 Responsible Brand Award” respectively. The Group also worked hard on promoting international exchange and cooperation, by frequently communicating with peers and organizations in the States, Australia, Japan, etc., in order to learn from each other, foster future cooperation, and lead the industrial development. During the Year, Fu Shou Yuan Life-Service Academy has been focusing on cultivating the management and professional talents, which is of vital significance to the comprehensive expansion of the Group.

Looking forward, the Group will persistently focus on core business as well as exploring innovation and new expansion. The Group will also respect the balance of man and nature, undertake the responsibilities of enterprise, society, industry, history, and the public and thrive on the greener and healthier future of the industry to ensure it will continuously take development quality and efficiency as the center, and to ensure the Shareholders’ benefits and maximize the values.

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. 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 Year, 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.

During the Year, the geographic coverage of our business were further expanded to more locations in the PRC. In early January 2017 and November 2017, we completed to acquire 80% equity interest in Luoyang Xianhe Cemetery and 60% equity interest in Guangxi Huazuyuan respectively, which have been delivering the expected revenue. Our projects in Bishan District of Chongqing Municipality and in

Xuancheng City of Anhui Province have been under construction during the Year. The construction of funeral facilities within these two projects had been almost accomplished by the end of the Year. During the Year, we also entered cooperation agreements with local authorities and commenced to provide funeral services in 4 funeral homes respectively in Huaibei City of Anhui Province, Tai'an City of Shandong Province, Ningde City of Fujian Province, and Lujiang County of Hefei City in Anhui Province. Meanwhile, 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 December 31, 2017, excluding the projects under development, we own up to 15 cemeteries in operation, and were operating up to 15 funeral facilities. We also generate revenue by providing management services to three small cemeteries. The expanding business footprints lay a good foundation for the Group's future development. During the Year, we acquired 51% equity in Temshine, which enjoys good experience and reputation in park and cemetery designing. It will not only bring synergy with our current business, but also bring more merger and acquisition opportunities.

During the Year, we have been marketing our environmental-friendly cremation machine all around the China. On December 26, 2017, we won out a bidding to supply a state owned funeral home in Shanghai with 6 sets of our products. On January 24, 2018, The State Intellectual Property Office of the PRC agreed to grant the invention patent right for our environmental-friendly cremation machine. We believe our cremators will be equipped into more and more funeral facilities in the PRC in the near future.

During the Year, we have 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 contracts in a couple of cities. During the Year, we signed 1,174 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 Year, 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 optimizing our cost structure 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 expenses 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. During the Year, the Group recorded the sale of 22,663 tombs and provided funeral services to 20,520 customers. The total revenue amounted to RMB1,477.2 million, representing an increase of 16.5% year over year. Our gross profit margin and revenue per square meter of land were also further improved, as compared to last year. The Group made a net profit totaling RMB550.2 million, representing an increase of 22.7% compared to last year. Net profit attributable to our shareholders was RMB417.4million, representing an increase of 23.1% as compared to 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 Year:

	2017		2016	
	<i>Revenue (RMB'000)</i>	<i>% of total revenue</i>	<i>Revenue (RMB'000)</i>	<i>% of total revenue</i>
Burial services	1,300,045	88.0%	1,111,809	87.7%
Funeral services	157,855	10.7%	142,288	11.2%
Other services	37,138	2.5%	17,480	1.4%
Inter-segment elimination	<u>(17,830)</u>	<u>(1.2%)</u>	<u>(3,922)</u>	<u>(0.3%)</u>
Total	<u>1,477,208</u>	<u>100.0%</u>	<u>1,267,655</u>	<u>100.0%</u>

Our revenue increased by RMB209.5 million, or 16.5%, from RMB1,267.7 million for 2016 to RMB1,477.2 million for 2017. This increase was primarily driven by a 16.9%, or RMB188.2 million, increase in revenue from burial services.

Our revenue from funeral services increased by RMB15.6 million, or 10.9% from RMB142.3 million for 2016 to RMB157.9 million for the Year. It is mainly due to the contribution of RMB5.1 million from the new funeral facilities we commenced to operating during the Year, and the increase of funeral services revenue from the regions other than Chongqing by RMB16.8 million, or 18.5%, while partially offset by the decrease of funeral services revenue from Chongqing.

Our cemeteries and funeral facilities are strategically located in major cities across 11 provinces, autonomous regions or municipalities in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region for the Year:

	2017		2016	
	<i>Revenue (RMB'000)</i>	<i>% of total revenue</i>	<i>Revenue (RMB'000)</i>	<i>% of total revenue</i>
Shanghai	780,296	53.5%	668,445	53.3%
Henan	88,265	6.1%	48,429	3.9%
Chongqing	70,563	4.8%	83,188	6.7%
Anhui	137,334	9.4%	124,591	9.9%
Shandong	59,718	4.1%	43,015	3.4%
Liaoning	174,109	11.9%	188,402	15.0%
Jiangxi	45,924	3.2%	36,336	2.9%
Fujian	33,636	2.3%	26,536	2.1%
Zhejiang	8,341	0.6%	5,126	0.4%
Jiangsu	57,017	3.9%	30,029	2.4%
Guangxi	<u>2,697</u>	<u>0.2%</u>	<u>—</u>	<u>—</u>
Total	<u>1,457,900</u>	<u>100%</u>	<u>1,254,097</u>	<u>100.0%</u>

During the Year, we completed the acquisition of the controlling equity in Luoyang Xianhe Cemetery and Guangxi Huazuyuan, we also commenced to provide funeral services in certain new cities as discussed above. These new sites contributed RMB26.2 million in revenue for 2017. The growth in revenue from previously existing cemeteries and funeral facilities amounted to RMB177.6 million, or 14.2% as compared to last year.

We achieved growth as compared to last year in majority of locations where we operate except for Chongqing region and Liaoning region. The revenue from Chongqing region decreased by RMB12.6 million, or 15.2% as compared to last year. It was mainly because: (i) Chongqing Baitayuan had been undergoing the products upgrade and market channels restructure in responding to the changed local market and to promote an upgraded burial and funeral concepts there, which led to the temporary decline in its revenue; (ii) a government stated funeral parlour built in the second half of 2015 eroded part of our market share in funeral wake business. We have been actively exploring other suitable sites to increase our funeral service coverage in Chongqing and improving marketing penetration by moving the sales frontier from the gone to pre-need. We will also leverage the synergy to improve the performance in Chongqing considering the Xiyuan Fu Shou Yuan in Bishan District

of Chongqing will be put into operation and we will have complete business lines there, including multiple locations for funeral wake, cremation, cemetery and columbarium. The revenue from Liaoning region decreased by RMB14.3 million, or 7.6% as compared to last year. It was mainly because that we had been restructuring the market channels for a purpose of cost saving, and promoting new products and upgraded burial concepts in Shenyang city while people there might need more time to accept it widely, which in return, led to the temporary decline in revenue from Guanlingshan Cultural Cemetery while its average selling price and profitability were improved.

BURIAL SERVICES

We derived a substantial portion of our revenue from burial services, which represented 88.0% (2016: 87.7%) of our total revenue for 2017. 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 2017. 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 and others, for the Year:

	2017				2016			
	No. of Units	Average Selling price (RMB per Unit)	Revenue (RMB'000)	% of revenue from burial services	No. of Units	Average Selling price (RMB per Unit)	Revenue (RMB'000)	% of revenue from burial services
Sale of burial plots								
- Customized	808	421,814	340,825	26.2%	812	338,053	274,499	24.7%
- Artistic	5,315	100,808	535,795	41.2%	4,404	101,922	448,867	40.4%
- Traditional	5,093	40,341	205,456	15.8%	5,229	40,834	213,522	19.2%
- Lawn	782	81,489	63,724	4.9%	700	69,935	48,954	4.4%
- Green	1,901	12,764	24,264	1.9%	980	16,218	15,894	1.4%
- Indoor	8,764	2,333	20,447	1.6%	1,017	14,434	14,679	1.3%
- Other burial related services	—	—	87,074	6.7%	—	—	76,712	6.9%
	22,663	—	1,277,585	98.3%	13,142	—	1,093,127	98.3%
Cemetery maintenance services	—	—	22,460	1.7%	—	—	18,682	1.7%
Total revenue from burial services	<u>22,663</u>	<u>—</u>	<u>1,300,045</u>	<u>100.0%</u>	<u>13,142</u>	<u>—</u>	<u>1,111,809</u>	<u>100.0%</u>

We sold 12,372 burial plots, excluding 10,291 plots charged with very low prices for public welfare purpose or to accommodate the tomb relocation funded by local government for the Year. The number of burial plots we sold kept flat with that of last year (12,486 burial plots, excluding 656 plots charged with very low prices for public welfare purpose and to accommodate tomb relocation). The plots for public welfare purpose and to accommodate tomb relocation are usually designed to the type of land-saving. The enlarged customer base is helpful for our brand spread, value acknowledgement, and increases the probability of providing further services to the society of friends and relatives of the existing customers.

The average selling price of burial plots, excluding those plots for public welfare and tomb relocation purpose as mentioned above, was RMB102,416 per unit for the Year. It is increased by RMB15,059 per unit, or 17.2%, from RMB87,357 per unit for 2016.

COST OF SALES AND SERVICES

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

	2017		2016	
	<i>Cost of sales and services (RMB'000)</i>	<i>% of total cost of sales and services</i>	<i>Cost of sales and services (RMB'000)</i>	<i>% of total cost of sales and services</i>
Burial services	225,081	77.0%	207,679	78.3%
Funeral services	56,729	19.4%	49,859	18.8%
Other services	23,501	8.0%	11,487	4.3%
Inter-segment elimination	<u>(12,995)</u>	<u>(4.4%)</u>	<u>(3,722)</u>	<u>(1.4%)</u>
Total	<u>292,316</u>	<u>100.0%</u>	<u>265,303</u>	<u>100.0%</u>

Our cost of sales and services increased by RMB27.0 million, or 10.2%, from RMB265.3 million for 2016 to RMB292.3 million for 2017. The increases were mainly due to our business growth in burial and funeral services. Our cost of sales and services for burial services includes the following:

	2017		2016	
	<i>Cost of sales and services (RMB'000)</i>	<i>% of total cost of sales and services</i>	<i>Cost of sales and services (RMB'000)</i>	<i>% of total cost of sales and services</i>
Tombstone cost	66,165	29.4%	63,774	30.7%
Land cost	33,426	14.9%	30,770	14.8%
Development cost	72,471	32.2%	61,008	29.4%
Taxes	711	0.3%	4,633	2.2%
Cemetery maintenance cost	15,367	6.8%	11,415	5.5%
Costs for other burial related services	<u>36,941</u>	<u>16.4%</u>	<u>36,079</u>	<u>17.4%</u>
Total	<u>225,081</u>	<u>100.0%</u>	<u>207,679</u>	<u>100.0%</u>

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

Our cost of sales and services for other services represents the various expenditures incurred in relation to provision of other services.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB 182.5 million, or 18.2%, from approximately RMB1,002.4 million for 2016 to approximately RMB 1,184.9 million for 2017. We maintained a relatively high and stable gross profit margin as we have been committing to and delivering the 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 80.2% for the Year, slightly higher than the overall gross profit margin of 79.1% for 2016. 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 Year:

	2017		2016	
	<i>Gross Profit (RMB'000)</i>	<i>Gross Profit Margin (%)</i>	<i>Gross Profit (RMB'000)</i>	<i>Gross Profit Margin (%)</i>
Burial services	1,074,964	82.7%	904,130	81.3%
Funeral services	101,126	64.1%	92,429	65.0%
Other Services	13,637	36.7%	5,993	34.3%
Inter-segment elimination	<u>(4,835)</u>	<u>27.1%</u>	<u>(200)</u>	<u>5.1%</u>
Total	<u>1,184,892</u>	<u>80.2%</u>	<u>1,002,352</u>	<u>79.1%</u>

OTHER INCOME AND GAINS, NET

Our interest income increased by RMB9.4 million from RMB35.7 million for 2016 to RMB45.1 million for 2017, mainly due to the increased bank balances and the increased yield rate in China capital market.

We received government grants in the amount of RMB13.3 million for 2017, which represented unconditional subsidies from the local government to encourage and reward our contribution to the local economy.

DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 36.8% of our total revenue for 2017 (39.2% for 2016), increased by RMB47.3 million, or 9.5%, from RMB496.4 million for 2016 to RMB543.7 million for 2017. The increase was mainly as the result of: (i) the operating expenses of RMB15.3 million from certain subsidiaries newly acquired or established for business expansion during the Year; (ii) higher amortization on stock option by RMB6.4 million, as a result of the grant of new options during the Year; and (iii) reasonable staff cost increase and other general variable expenditures increase to support the business growth.

FINANCE COSTS

Finance costs for 2017 consist of interest expense of RMB6.0 million (2016: RMB5.9 million) on bank loans, and interest expenses of RMB9.6 million (2016: RMB2.3 million) on loans from non-controlling interests.

Interest expense on loans from non-controlling interests refers to the interest expense in connection with the shareholder's loans borrowed by certain non-wholly owned subsidiaries, from their non-controlling shareholders. These subsidiaries are jointly invested by our Group and such non-controlling shareholders. Our Group and such non-controlling shareholders jointly provided funding to these subsidiaries, for their land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentage in addition to the registered capital. The interests are charged based on the market rates.

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 rates for 2017 was 19.7% (2016: 19.5%). It was mainly because: (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; (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; and (iv) we have also reversed certain prior year tax provisions during the Year as the tax uncertainties of which have been resolved.

The income tax expense increased by approximately RMB26.1 million, or 24.1% from approximately RMB108.5 million for 2016 to approximately RMB134.6 million for 2017, 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 RMB78.4 million, or 23.1%, from approximately RMB339.0 million for 2016 to approximately RMB417.4 million for 2017. 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; and (iii) effective cost controls.

CASH FLOW

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

	2017	2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net cash generated from (used in)		
- operating activities	648,172	455,423
- investing activities	134,672	(340,500)
- financing activities	<u>(84,758)</u>	<u>(152,778)</u>
Total	<u>698,086</u>	<u>(37,855)</u>

We generated our cash from operating activities primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for the development and construction of cemeteries, selling and distribution expenses, 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 changes in working capital and taxation. For 2017, our net cash generated from operating activities amounted to RMB648.2 million, representing 42.3% increase as compared to last year. It mainly included the operating cash inflows before movement in working capital of RMB772.2 million, and partially offset by (i) the increase of other working capital of RMB13.0 million and (ii) income tax paid of RMB137.0 million.

During the Year, we generated net cash from investing activities by RMB134.7 million. It was primarily due to: (i) the redemption on maturity of time deposits of RMB283.9 million; and (ii) interest received of RMB48.1 million. It was partially offset by: (i) consideration payment of RMB77.3 million to acquire subsidiaries, and (ii) our additions to and deposits for property and equipment of approximately RMB111.8 million, mainly to build cemeteries and funeral facilities in Bishan District of Chongqing Municipality and Xuancheng City of Anhui Province, and also in connection with our landscape upgrade in the cemeteries we acquired recent years and decoration improvement in certain funeral facilities.

Our net cash used in financing activities amounted to RMB84.8 million for 2017. It was primarily due to: (i) final dividends for 2016 paid to owners of the Company of RMB48.0 million and interim dividends for 2017 of RMB58.5 million, (ii) dividends paid to non-controlling interests of RMB97.2 million, (iii) net decrease of bank loans

of RMB21.0 million, and (iv) interest paid of RMB8.4 million for our borrowings. It was partially offset by: (i) capital injection of RMB10.5 million from non-controlling interests of certain subsidiaries, and (ii) proceeds received of RMB128.6 million related to the exercise of certain employee share options.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2017, we had bank balances and cash of RMB1,937.0 million (December 31, 2016: RMB1,238.9 million) and time deposits of RMB10.0 million (December 31, 2016: 293.9 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 RMB113.0 million as at December 31, 2017, within which there are borrowings of RMB60.5 million repayable within one year, RMB20.8 million repayable within two years, RMB17.8 million repayable within three years, and RMB13.9 million repayable within four years. These borrowings were denominated in RMB and were subject to floating interest rates ranged from 4.35% to 4.998% per annum. Meanwhile, Shandong Fu Shou Yuan, one of our non-wholly owned subsidiaries, had an outstanding loan balance of RMB34.0 million with interest rate of 4.785% per annum, without specific repayment schedule, from its non-controlling shareholder. Xiyuan Fu Shou Yuan, our another non-wholly owned subsidiary, had an outstanding loan balance of RMB10.0 million with interest rate of 4.35% per annum, repayable within one year, from its non-controlling shareholder.

In addition, we had bank borrowing facilities of approximately RMB2,019.0 million committed but not withdrawn as at December 31, 2017.

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial year multiplied by 100%. Our gearing ratio as of December 31, 2017 was 4.6% (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 we currently have in hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The economic environment in which we operate is the PRC and our functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposes us to foreign currency risk. As at December 31, 2017, cash and cash equivalents and time deposits held in RMB, Hong Kong dollars and US dollars accounted for 93.4%, 5.0% and 1.6% 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 management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

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.

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 to serve as the business vehicle for the funeral home business. The cooperation is currently in the start-up stage.

In August 2017, we completed to acquire 51% equity interest in Temshine, a professional design company with reputation specialized in park and cemetery design, with a consideration of RMB15.5 million and any taxes in relation to the transaction.

In early November 2017, we completed to acquire 60% equity interest in Guanxi Huazuyuan with a total consideration of RMB45.6 million. Guangxi Huazuyuan has been mainly providing burial services and holds land use right for a parcel of land measuring 66,667 sq.m. in Fangchenggang City of Guangxi Zhuang Autonomous Region. Meanwhile, we also established a non-wholly owned subsidiary to develop a new cemetery in Qinzhou City of Guangxi Zhuang Autonomous Region with the same non-controlling shareholder of Guangxi Huazuyuan.

During the Year, we also entered a couple of cooperation agreements with other local authorities and commenced to provide funeral services in 4 funeral homes respectively in Huaibei City of Anhui Province, Tai'an City of Shandong Province, Ningde City of Fujian Province, and Lujiang County of Hefei City in Anhui Province. A couple of wholly owned subsidiaries were set up in to serve as the business vehicles.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2017, we had 1,836 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 RMB57.1 million as at December 31, 2017. We had also planned to provide approximately RMB300 million in 2018 for the construction of new cemeteries and funeral facilities in cities where our projects have been under development or are going to be developed.

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

ASSETS PLEDGED

As at December 31, 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 material assets were pledged or charged.

CEMETERY LANDS AVAILABLE

We derive a substantial portion of our revenue from burial services, out of which, sale of burial plots represented the largest component of our revenue from burial services. During the Year, we expended land of approximately 33,546 sq.m. to generate revenue from sale of burial plots. Our total saleable area was approximately 1.96 million sq.m. as at December 31, 2017 (December 31, 2016: approximately 1.81 million sq.m.), including a piece of land acquired in Bishan District of Chongqing

Municipality, a piece of land newly acquired by our non-wholly owned subsidiary in Changzhou City of Jiangsu Province, a piece of land acquired via the acquisition of 80% equity interest of Luoyang Xianhe Cemetery, and a piece of land acquired via the acquisition of 60% equity interest of Guangxi Huazuyuan during the Year.

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.

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. We have closed most of the lawsuits without substantial losses during the Year. As at the December 31, 2017, there are two lawsuits still outstanding with claims totaling approximately RMB38 million (including the claimed principals and contingent interests).

Within these two lawsuits, there is one case where the judgement from the People's court was awarded against Wuyuan Wanshoushan Cemetery. However, the public security department had filed investigation for suspected crimes on the relevant personnel involved in the lawsuits. The other case was suspended for sentence for the same reason.

We are still in the process of taking all necessary steps, including by close cooperation with the public security department, in reversing the judgements and vigorously defending against the proceedings. As of the date of this announcement, after taking into account of the legal opinion and the current status of the proceedings and investigation, 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 OCCURRED SINCE THE END OF THE FINANCIAL YEAR

On February 8, 2018, we won out a bid to provide funeral service in a funeral home in Xiaoshan District, Hangzhou City of Zhengjiang for 10 years.

On February 12, 2018, we signed agreement to acquire additional 20% equity interest in Guanlingshan Cultural Cemetery, one of our non-wholly owned subsidiary, from its non-controlling shareholders with a consideration of RMB120.0 million. Upon completion of the transaction, our shareholding in Guanlingshan Cultural Cemetery will be 90%. For details of this transaction, please refer to the announcement published by the Company on February 12, 2018.

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

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 to 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. In the coming years, we will expand our business in a more aggressive pace. 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, 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.

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 December 31, 2017, we had used approximately HK\$334.2 million towards acquiring new lands, approximately HK\$102.9 million to set up new funeral facilities, approximately HK\$1,139.6 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.

ANNUAL GENERAL MEETING

The AGM will be held on May 18, 2018 and the notice of AGM is expected to be published and despatched to the Shareholders on or about April 16, 2018.

FINAL DIVIDEND

The Board recommend the payment of a final dividend of HK3.24 cents per Share for the year ended December 31, 2017, which is subject to the approval by the Shareholders at the AGM. The final dividend is expected to be payable to the Shareholders on or about Wednesday, June 6, 2018. 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 Tuesday, May 29, 2018.

CLOSURES OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, May 15, 2018 to Friday, May 18, 2018, both days inclusive. During the above period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office 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 before 4:30 p.m. on Monday, May 14, 2018.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Friday, May 25, 2018 to Tuesday, May 29, 2018, both days inclusive. During the above period, no transfer of Share will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the Shareholders at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office 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 before 4:30 p.m. on Thursday, May 24, 2018.

DIRECTOR'S 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 Year.

No incident of non-compliance with the Model Code by the Directors was noted by the Company throughout the Year.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of corporate transparency and accountability. The Company is committed in achieving a 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 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 Year.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Audit Committee, comprising two independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee) and Mr. Luo Zhuping, and one non-executive Director, namely, Mr. Huang James Chih-Cheng, has reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group, this annual results and the consolidated financial statements of the Group for the Year.

PUBLICATION OF ANNUAL RESULTS AND 2017 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fsygroup.com). The 2017 annual report will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“AGM”	the annual general meeting of the Company to be held on May 18, 2018
“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.* (常州棲鳳山國際人文陵園有限公司), 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 announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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 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 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
“Director(s)”	the director(s) of the Company
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“Global Offering”	the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013

“Group”, “our Group”, “us”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Guangxi Huazuyuan”	a cemetery in Fangchenggang City of Guangxi Zhuang Autonomous Region and operated by Guangxi Huazuyuan Investment Co., Ltd.* (廣西華祖園投資有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2017
“Guanlingshan Cultural Cemetery”	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Haigang Fu Shou Yuan”	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by Shanghai Nanyuan 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
“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 Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Listing”	listing of the Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“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 Humanities Memorial Co., Ltd
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Prospectus”	the prospectus of the Company dated December 9, 2013
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shandong Fu Shou Yuan”	Shandong Fu Shou Yuan Development Co., Ltd.* (山東福壽園發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Shandong World Trade Centre”	Shandong World Trade Centre* (山東世界貿易中心), a 50% shareholder of Shandong Fu Shou Yuan
“Shanghai Fu Shou Yuan”	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in the share capital of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“Shareholder(s)”	holder(s) of the Share(s)

“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Temshine”	Beijing Temshine Cemetery Design Group Ltd.* (北京天泉佳境陵園建築設計有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since August 2017
“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
“Xiyuan Fu Shou Yuan”	Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd.* (重慶西苑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
“Year”	year ended December 31, 2017
“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
“%”	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.

By order of the Board
Fu Shou Yuan International Group Limited
 BAI Xiaojiang
Chairman and Executive Director

Hong Kong, March 16, 2018

As at the date of this announcement, the executive Directors are Mr. Bai Xiaojiang, Mr. Tan Leon Li-an and Mr. Wang Jisheng; the non-executive Directors are Mr. Ma Xiang, Mr. Lu Hesheng and Mr. Huang James Chih-Cheng; and the independent non-executive Directors are Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei.