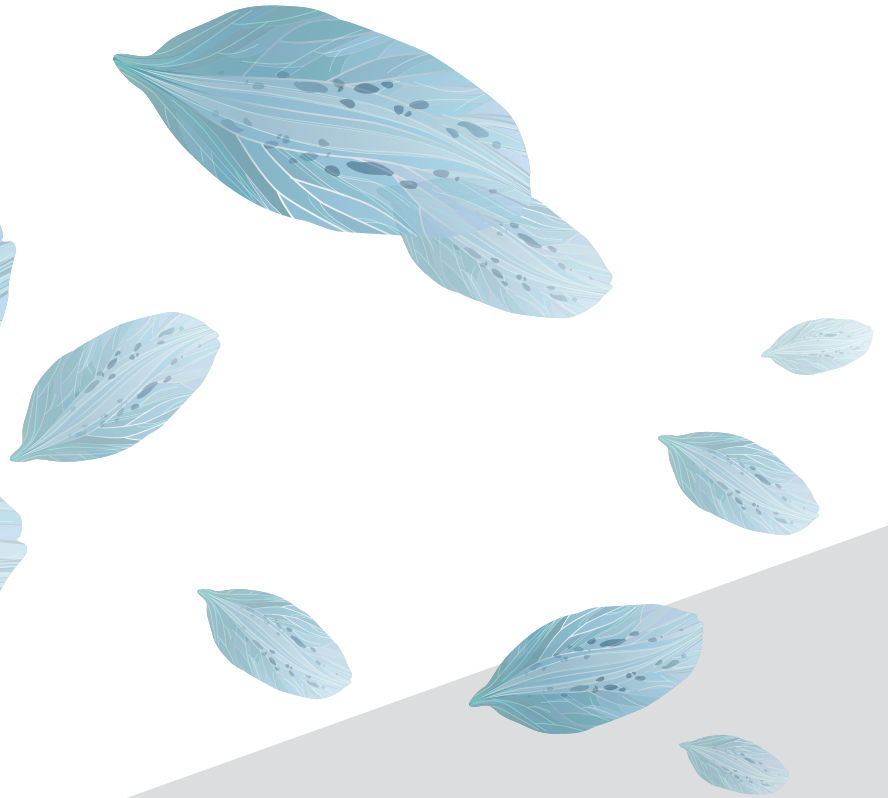
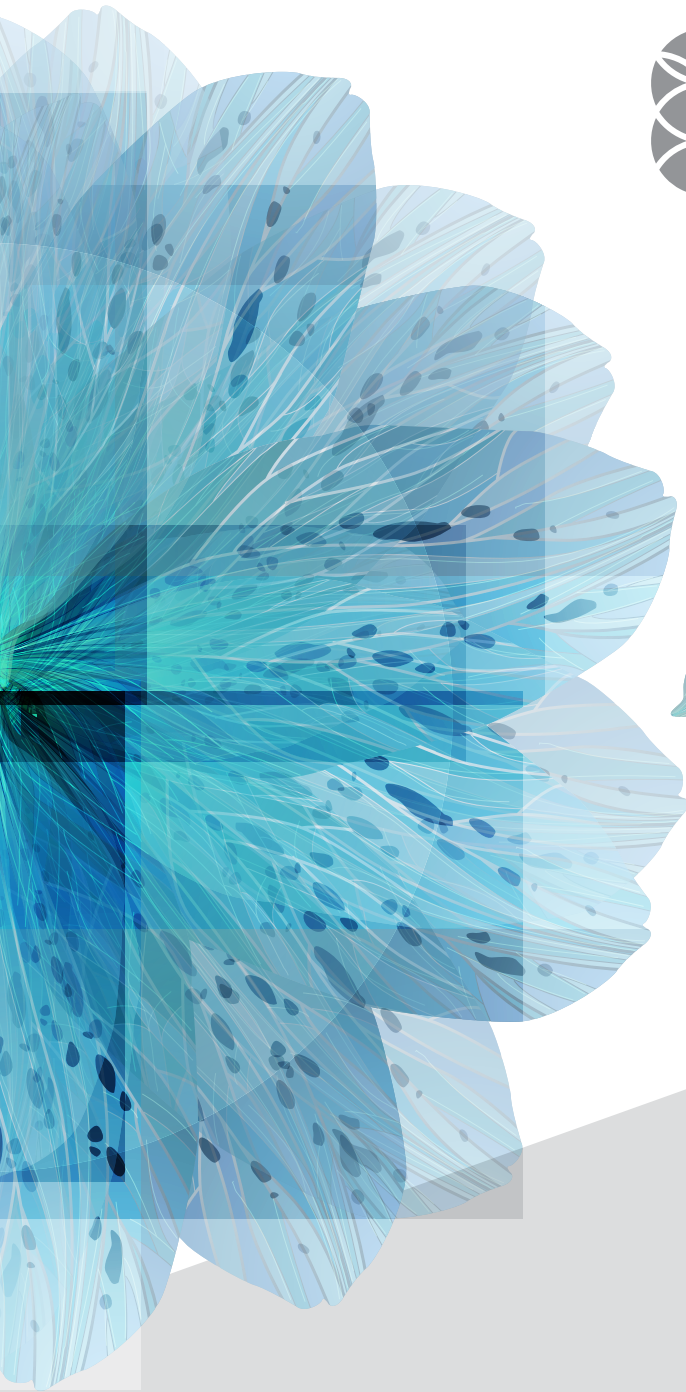




福壽園國際集團

FU SHOU YUAN INTERNATIONAL GROUP  
01448.HK



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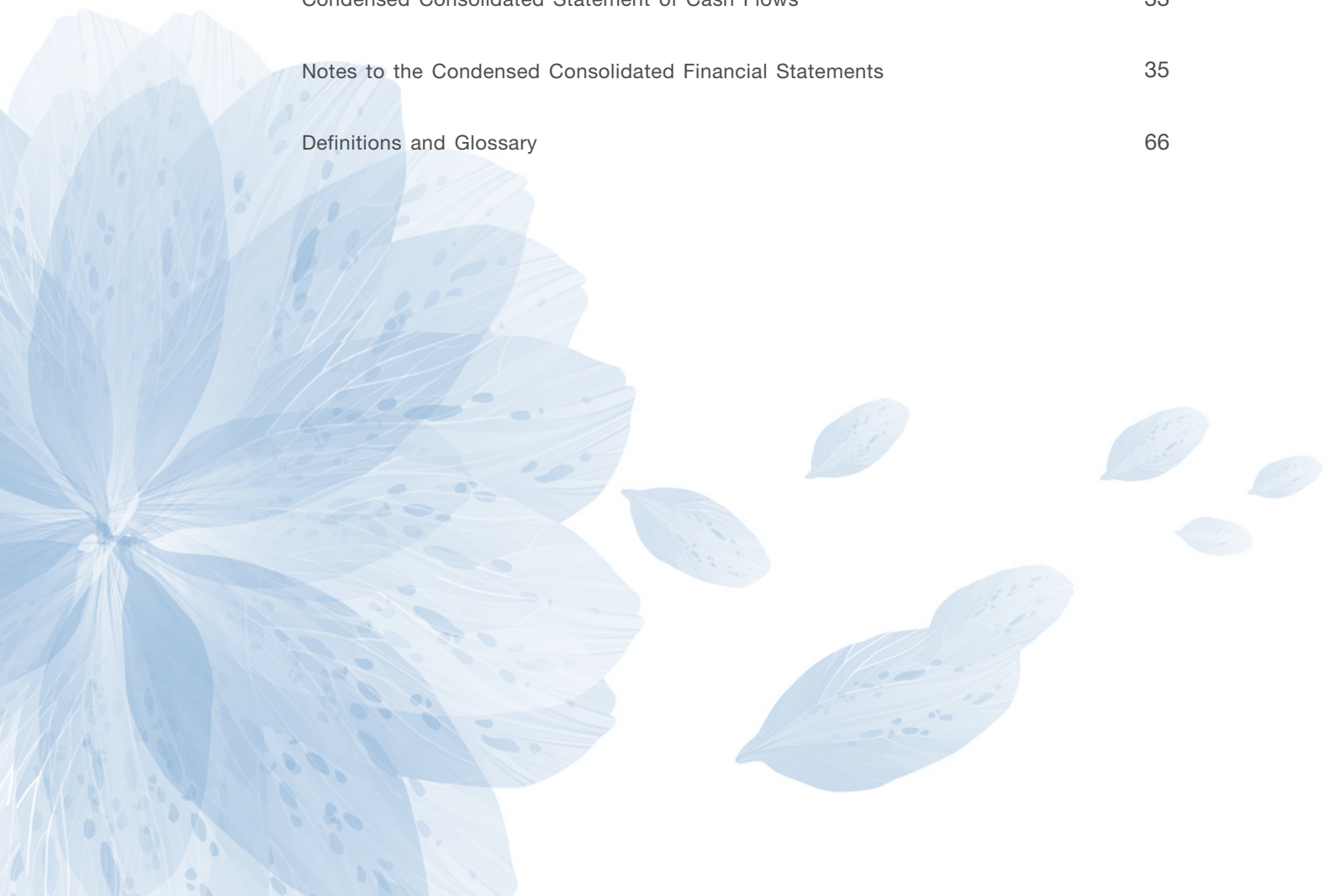
INTERIM REPORT

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

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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

## COMPANY SECRETARY

Ms. Hu Yi

## AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang  
Ms. Hu Yi

## REGISTERED OFFICE

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

## HEADQUARTERS

Room 1306  
No. 88 Cao Xi Road North  
Shanghai  
China 200030

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

UNIT 709, 7/F  
K. Wah Centre  
191 Java Road  
North Point  
Hong Kong

## 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  
Bank of Communications  
Bank of Shanghai  
Citibank, N.A.

## **AUDITOR**

Deloitte Touche Tohmatsu

## **STOCK CODE**

1448

## **WEBSITE**

[www.fsygroup.com](http://www.fsygroup.com)

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby report the results of the Group for the six months ended June 30, 2019.

In the first half of 2019, exacerbated by trade friction, rising geopolitical risks and volatile financial markets, the global economy grew at a decelerated rate despite the continuous recovery trend. Despite increasing external uncertainties and new downward pressure on the economy, China's GDP still maintained its steady growth momentum, recording a growth rate of 6.3% in the first half of the year. As the supply-side structural reform has gradually yielded results, China's economy is starting to shift from the stage of rapid development to the development stage of high-quality resource allocation and economic cycle.

"Filial piety" has long been a traditional culture and virtue of China, which serves as the backbone for the death care service industry to subsist and develop in the PRC. Under the cultural legacy of "filial piety", the increasing disposable income per capita, accelerating urbanization and growing aging population in China have spurred a great demand for death care services, and laid the foundation for the death care service market in the PRC on which the Group currently focuses on, to grow into the largest death care service market in the world. Adhering to the mission of "making people pass away respectfully with relief and dignity", we have strived to fulfill people's full expectation towards a fruitful life.

The Group's total revenue during the first half of 2019 remained a steady growth with RMB911.7 million, representing an increase of 15.5% when compared to the same period of 2018. Profit and comprehensive income attributable to owners of the Company was RMB296.9 million, representing an increase of 13.3% when compared to the same period of 2018. The Board proposes an interim dividend of HK4.21 cents per Share for 2019 to the Shareholders in appreciation of their support.

During the Period, the Group continued to consolidate its core businesses, improve service quality, strengthen business performance, and actively promote structural optimization and adjustments with a view to achieving sustainable development in various aspects, including optimizing the business structure, products and services, sales channels and the revenue contribution and proportion of different regions, etc. With these adjustments, we have optimized the layout of industry chain and enhanced the presence of funeral services business from a strategic perspective, which increased the business scale and income proportion of funeral services. During the Period, the Group continued to promote pre-need contracts for funeral services as an important strategic standpoint. Pre-need services were able to lock in customers in advance, which brought a stable source of customers to the funeral and burial business segments. Based on our expectations regarding the development of the death care industry, we also enhanced our landscape design ability for death care facilities, formed independent business segments, improved the coordination and cooperation between business segments of the Group and strengthened our all-round competitiveness. We continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while reducing the proportion of traditional cemeteries, so as to improve the effectiveness of land utilization and level of greenery. While achieving a steady growth in Shanghai, we also proactively expanded our businesses in other regions as well. The weighting of income contributed by such regions to the Group exceeded 50% for the first time, optimizing the regional structure of the Group's business. Currently, our principal business has entered over 30 cities in 15 provinces, autonomous regions and municipalities in the PRC, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia and Hubei, etc.



# CHAIRMAN'S STATEMENT

As a leading enterprise in the death care industry in the PRC, the Group kept on exploring innovative product services. In March 2019, the Group entered into agreements with Shanghai Weaver Network Co., Ltd and Shanghai eRoad Software Co., Ltd, respectively, establishing a strategic partnership to build a brand-new industry ecosystem featuring “Death Care + Internet”, so as to expand the development potential and space for the death care industry. During the Period, our self-developed cemetery business system has covered every cemetery in the Group, so will the funeral business system during the year. In June, the Group founded the “Belt and Road” Project Management Committee, to facilitate the technologization and informatization of the funeral appliances of the Group by formulating the “Belt and Road” Science and Technology Innovation Action Plan and continued to enhance our R&D capability in cremation machines. Fu Shou Yuan continued to promote the installation and sales of environmental friendly cremation machines, which have now been sold to Russia and Outer Mongolia. The Group closely followed the development of the “Belt and Road Initiative” and proactively responded to with the call of the nation in order to be integrated into the “Belt and Road” map and endeavored to improve the quality of the funeral and civil services in the countries along the route of the “Belt and Road Initiative”. Upholding the idea of green funeral ecology, we hope to contribute to the green development of the “Belt and Road”.

The Group has also continuously enhanced international exchange and cooperation. During the Period, we conducted site visits, interacted and enhanced business cooperation with institutions in various countries and regions, including Japan, Russia, Australia, the United Kingdom, etc. During the Period, the Group attended the ICCFA Annual Convention for the 14th year in a row. Mr. Wang Jisheng, vice president of the China Funeral Association, executive director and chief executive of the Company, participated in the 50th ICD meeting of International Federation of Thanatologist Association\* (第50屆國際殯葬協會ICD會議) held in the United Kingdom. A team of representatives from Masonwork of Japan also paid a visit to Haigang Fu Shou Yuan. In May, the unveiling ceremony of “Brotherly Cemetery”\* (友好公墓) between the Group and Springvale affiliated to the SMCT Group from Australia was held in Melbourne. Both parties will continue to strengthen exchanges in the future to continuously explore new trends and possibilities for the development of death care, fuel the development of new technologies for death care, and facilitate the development of green, civilized and eco-friendly death care.

In January 2019, Guangxi Huazuyuan Investment Co., Ltd\* (廣西華祖園投資有限公司) was awarded the honorary title of “Outstanding Death Care Organization of Guangxi in 2018”. In February, Shanghai FSY Industry Development Co., Ltd.\* (上海福壽園實業發展有限公司) was awarded the “2018 Special Contribution Award from Shanghai Services Federation”. In March, Ms. Yi Hua, the Chief Brand Officer of the Group, was awarded the title of “2017–2018 Shanghai Woman Pace-Setter” (2017–2018年度上海市三八紅旗手標兵) to recognize extraordinary women who contributed to the construction of the “Four Brands” and “Five Centers”. In April, Shanghai Fu Shou Yuan and Shanghai Nanyuan Industrial Development Co. Ltd.\* (上海南院實業發展有限公司) both won the honorary title of “2017–2018 Enlightened Unit in Shanghai City” (2017–2018年度上海市文明單位). The deputy general manager of Haigang Fu Shou Yuan of the Group and the funeral director of Hefei Renben Funeral Arrangement Co., Ltd.\* (合肥人本禮儀公司) were awarded the National Labor Medal in Shanghai City and Anhui Province, respectively. In July, the Group won the “2019 Enterprise Social Responsibility Model Award” (2019企業社會責任典範獎) at the 8th China Finance Summit.

# CHAIRMAN'S STATEMENT

“Noble is the one who establishes the base from which paths grow”. The Group will continue to uphold the principle of “adhering to people-oriented philosophy and taking root in culture” and consider the continuous provision of better services as its responsibilities. The Group will insist on undertaking social responsibility, improving funeral facilities, promoting green death care reform, and achieving harmonious coexistence between people and the environment. We will devote unremitting efforts in livelihood matters for a better tomorrow and strive to create better returns for our general shareholders.

By order of the Board

**Fu Shou Yuan International Group Limited**

**Bai Xiaojiang**

*Chairman*



# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET OVERVIEW

The increasing disposable income per capita in the PRC, vigorous promotion by the government on Chinese traditional culture and virtue, accelerating pace of urbanization, aging population, and pursuit of humane death care services by the general public have been generating huge demand on death care services in recent years. Such increase in demand call for increases in not only the quantity but also the quality and variety of the death care services. All these drivers have enhanced the death care service industry in the PRC to become one of the industries with steady growth rate, and its future growth will accelerate. Although economic growth of the PRC has slowed down in recent years, the death care service industry is relatively less affected by economic cyclical fluctuations.

On September 7, 2018, the Chinese Ministry of Civil Affairs issued the Regulations on Funeral Management (Revised Draft for Inviting Opinions) (《殯葬管理條例(修訂草案徵求意見稿)》), which aims to shore up the oversight of the PRC death care service industry, drive its transformation, regulate its practices, satisfy public demand for death care services, and protect the dignity of the deceased and the interest of the general public. The Group expects there will be a higher entry barrier for both new and existing participants in the death care service industry. As a distinguished death care service provider and a leader of the industry in China, and consistent with the high standards of compliance that our operations have been meeting with, the Group believes that rectification and regulation will create a better environment with fair competition and adequate room for sustainable development. We will continue our efforts in directing the development of the industry and better serve the general public through our services that meet both the spiritual and cultural requirements. The management of the Group believes that the bill will help rectify the irregularities in the industry and promote the development of the industry towards institutionalization, marketization and standardization, and eventually promote the long term development of the PRC death care service industry.

Meanwhile, we notice that encouraging capitals from the community, building cemeteries and funeral facilities to increase the provision of death care services have become important measures in the transformation of the death care segment, which will bring about more opportunities for us to provide death care services across the country.

In addition, we believe the increasingly stringent environmental protection requirements from the PRC government is providing a good opportunity for the Group, to promote its environmental-friendly cremation machines.

## BUSINESS COMMENTARY

During the Period, the Group, as always, continued to consolidate and explore its brand value, put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improve service quality, and offer 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group has continued to proactively adjust its business portfolio, product and service mix, sales channels, and regional revenue contribution, and has achieved continuous progress. Through such adjustments, we further optimized our strategic layout for the industry chain and strategically expanded our funeral services business. As a result, the size of our funeral services business and the proportion of our income have been increased. Our landscape design ability for burial and funeral facilities has formed independent business segments, improving the synergy between segments and strengthened our all-round competitiveness. Striving to transform cemeteries into urban cultural parks, we continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while lowering traditional cemeteries so as to improve the effectiveness of land utilization. We also continued to strengthen our sales team and self-operating channels, optimized sales channels and improved our customers' consuming experience. While achieving a steady growth in Shanghai, we also proactively increased our business growth rate in regions outside Shanghai, where such regions contributed, for the first time, over 50% of our Group's revenue, thereby optimizing the regional structure of the Group's business. These adjustments helped expand our business scale while focusing on the efficiency, effects and effectiveness of each unit of our business, supporting the Group's sustainable development and improving our core competitiveness.

During the Period, the Group continued to expand its business presence. In January 2019, we completed the acquisition of 80% equity interests in Hubei Tianxian Cemetery in Hubei Province, upon which our business was extended to Hubei Province for the first time. In order to capitalize synergies between the design segment and other business segments, we signed a contract in March 2019 to acquire the remaining 49% equity interests in Temshine. Following completion of the acquisition, it will become our wholly-owned subsidiary. During the Period, we also carried out fruitful negotiations regarding acquisition of certain target companies and the relevant sale and purchase agreements are expected to be entered into during the second half of 2019 at the earliest. We pushed forward the construction of new projects at a steady pace. The funeral facilities projects in Dafeng and Gaoyou and the cemetery projects in Nanchang and Xuancheng are likely to commence operation during the year, whereas the cemetery project in Qinzhou has commenced construction. Renovation and upgrade works of newly-acquired or escrowed burial and funeral facilities were accelerated, which may further show effects of synergies. Meanwhile, we actively pushed for the implementation of signed projects, including: construction and operation of a funeral parlour under the "BOT" mode in Linquan County, Fuyang City and co-financing the construction of a cemetery with the local governments in Qihe County, Shandong Province and Ganzhou City, Jiangxi Province, respectively. During the Period, we won bids to provide paid management services for 3 public columbaria in Jiang Bei District of Nanjing City and 1 public cemetery in Chang Qing District of Jinan City, with an aim to establish our presence in the capital city of Jiangsu Province and enhance our integrated service capability in Jinan market. Currently, we have established footprint in over 30 cities spanning 15 provinces, autonomies and municipalities, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia and Hubei. We have 21 cemeteries (excluding 2 cemeteries entrusted for management) and 22 funeral facilities in operation.



# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group continued to promote the pre-need contracts as its important strategic pivots. Pre-need services were able to secure customers in advance and to bring about a stable source of customers to funeral and burial segments. It is proven that under the backdrop of aging population with fewer children, pre-need services are attracting more customers who would like to arrange their funeral matters in advance by themselves, and are being recognized, supported and increasingly sought after by government of various level and elderly service centres. We will actively explore more social value and business value of pre-need services. From sales channel aspect, we also worked with endowment and insurance institutions and designed a set of promotion routine and dialogue context which are practical for communicating with customers about pre-need services under non-funeral scenes. As at June 30, 2019, the Group has been offering pre-need contract for funeral services in 19 cities of 11 provisional regions. We signed a total of 1,449 contracts during the Period, representing an increase of 60.6% as compared to the same period of last year (the same period of last year: 902 contracts).

During the Period, we continued to enhance the installation and sales of environmental-friendly cremation machines. As at June 30, 2019, we have, in aggregate, installed 29 sets of cremation machines (internally: 17 sets; externally: 12 sets). The cremation machines installed and in operation were all operating smoothly with exhaust gases complying with environmental standards. During the Period, we obtained 10 new orders of cremation machines. As at the date of this announcement, the cremation machines contracted but not yet delivered amount to 18 sets. We expect that the cremation machine business will bring about considerable contribution to the Group's revenue in the foreseeable future.

Our employees are our most valuable resources. Having developed for many years, we have gathered talents of the death care service industry and continuously attracted external talents to join us. As a result, we have built up a well-balanced in terms of age and professional death care service team. This team, which bears the Group's concept, works diligently at each of our operating location. Through their effort, the Group is able to invent new products, enhance service quality, expand its business, and then offer more value-added services to our customers. We strive to preach and implement the advanced international funeral concepts. The Group's "Culture and Education Committee" and "Fu Shou Yuan Life Service College" continued to train and build up a pool of professionals for future business expansion.

During the Period, we have enhanced team building, improved operation structure and strengthened system construction. We continued to intensify comprehensive budget management and internal control to increase respective input-output ratios, and we continued to promote standardized procedures and operational information construction for enhancement of lean operations ability. We also integrated operations and enhanced our ability to support the expansion of the Group, which has increased its operating efficiency and reduced its cost in operations. Our self-developed cemetery business system has covered every cemetery in the Group, and the funeral business system has also covered nearly all cemeteries of the Group. Combining the marketing system of big data will enable us to go beyond the traditional operating mode. We plan to create new corporate competitiveness and consolidate our leading position in the industry by utilizing powerful online data access and management capacity as well as offline service operating capacity and its geographical influence.

In view of the above, despite a slowdown in economic growth of the PRC, we managed to achieve a double-digit growth during the Period. The total revenue of the Group amounted to RMB911.7 million, representing an increase of 15.5% as compared to that of the same period of last year. Profit and comprehensive income attributable to the owners of the Company amounted to an aggregate of RMB296.9 million, increased by 13.3% when compared to that of the same period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

During the Period, our revenue increased by RMB122.5 million or 15.5% to RMB911.7 million from RMB789.2 million of the same period of last year. 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:

	Six Months Ended			
	June 30, 2019		June 30, 2018	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Burial services	772,288	84.7%	687,977	87.2%
Funeral services	128,256	14.1%	91,777	11.6%
Other services	16,085	1.7%	15,914	2.0%
Inter-segment elimination	(4,905)	(0.5%)	(6,453)	(0.8%)
<b>Total</b>	<b>911,724</b>	<b>100.0%</b>	<b>789,215</b>	<b>100.0%</b>

## BURIAL SERVICES

The following table sets forth the breakdown of our revenue from burial services, including revenue from the sale of burial plots services and other burial services, for the Period:

	Six Months Ended			
	June 30, 2019		June 30, 2018	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	6,914	701,642	6,214	624,404
Public welfare plots and tomb relocation	1,766	6,807	1,409	4,252
	<b>8,680</b>	<b>708,449</b>	<b>7,623</b>	<b>628,656</b>
Other burial services		63,839		59,321
<b>Total revenue from burial services</b>	<b>8,680</b>	<b>772,288</b>	<b>7,623</b>	<b>687,977</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, revenue from sale of burial plots services for ordinary business purpose increased by RMB77.2 million or 12.4% as compared to the same period of last year, in which sales volume increased by 700 or 11.3%, while ASP increased by 1.0%, mainly due to the fact that we kept on improving our old cemeteries (i.e. comparable cemeteries) to further increase our presence in local market. Through enriching service mix and optimizing its cultural content, and further enhancing our service value, various structural adjustments have started to bear fruit.

The following table sets forth the breakdown of revenue of sale from burial plots services for ordinary business purpose from our new (i.e. those related to acquisitions/new construction) and comparable cemeteries during the Period:

	Six Months Ended			
	June 30, 2019		June 30, 2018	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plots services for ordinary business purpose, from:				
Comparable cemeteries*	6,423	686,968	6,137	622,262
Cemeteries related to acquisitions/new construction	491	14,674	77	2,142
<b>Total revenue from sale of burial plots services for ordinary business purpose</b>	<b>6,914</b>	<b>701,642</b>	<b>6,214</b>	<b>624,404</b>

\* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2018 to June 30, 2019.

During the Period, revenue from ordinary business burial plots of comparable cemeteries increased by RMB64.7 million, or 10.4%, as compared to that of the same period of last year. Such change has reflected our achievements in the optimization of product structure and promotion of land-saving ecological products. During the Period, revenue from burial plots sold for ordinary business purpose in the new cemeteries amounted to RMB14.7 million, while the ASP was lower than that of comparable cemeteries, as these new cemeteries need time to improve their landscape, enhance the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers and to increase the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals. Leveraging on our advanced philosophy, extensive management experience in death care business and a strong team of professionals, those new cemeteries are expected to achieve profitable growth in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUNERAL SERVICES

The following table sets forth the breakdown of revenue from our new (i.e. those related to acquisitions/new construction) and old (i.e. comparable facilities) funeral facilities during the Period:

	Six Months Ended			
	June 30, 2019		June 30, 2018	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	14,968	105,602	13,824	88,190
Facilities related to new acquisitions/new construction	6,791	22,654	1,305	3,587
Total revenue from funeral services	<u>21,759</u>	<u>128,256</u>	<u>15,129</u>	<u>91,777</u>

\* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2018 to June 30, 2019.

During the Period, our revenue from funeral services increased by RMB36.5 million or 39.7%. The proportion of revenue from funeral services to the total revenue increased to 14.1% from 11.6% of the same period of last year. Such increase was mainly due to an increase in revenue from the comparable funeral facilities and the contribution of our new funeral facilities starting from 2018 and during the Period. During the Period, revenue from funeral services provided by comparable funeral facilities increased by 19.7% from the same period of last year. Both the ASP and service volume increased as compared to the same period of last year. The ASP of these new funeral facilities was lower than that of the comparable funeral facilities, as most of these newly operated funeral facilities only offered basic services to their customers before our operation. These funeral facilities will provide high quality services to customers through introduction of new management and a variety of humanized funeral services after our operation. With the increased service items, improved service quality, and commencement of marketing activities, the Group's revenue from funeral services has much room to grow.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities under operation are strategically located in major cities across 14 provinces, municipalities and autonomous regions in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region during the Period:

	Six Months Ended			
	June 30, 2019		June 30, 2018	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Shanghai	442,944	49.2%	395,063	50.7%
Henan	56,778	6.3%	51,974	6.7%
Chongqing	34,894	3.9%	37,775	4.8%
Anhui	94,341	10.5%	78,062	10.0%
Shandong	40,286	4.5%	34,681	4.4%
Liaoning	95,497	10.6%	89,856	11.5%
Jiangxi	39,477	4.4%	25,185	3.2%
Fujian	24,344	2.7%	19,975	2.6%
Zhejiang	14,982	1.6%	6,816	0.9%
Jiangsu	34,098	3.8%	32,523	4.2%
Guangxi	8,177	0.9%	5,485	0.7%
Inner Mongolia	6,547	0.7%	1,065	0.1%
Guizhou	8,062	0.9%	1,294	0.2%
Hubei	117	0.0%	—	—
<b>Total</b>	<b>900,544</b>	<b>100.0%</b>	<b>779,754</b>	<b>100.0%</b>

During the Period, revenue from burial services and funeral services in regions other than Shanghai exceeded 50% of our revenue for the first time. Revenue in all regions (except for Chongqing) increased during the Period mainly because of revenue contributions from newly acquired or operated cemeteries and funeral facilities, as well as the growth in revenue from comparable funeral facilities and cemeteries.

## OTHER SERVICES

Revenue from other services for the Period mainly represented the revenue generated from our professional design services offered to cemeteries and funeral parlours throughout the nation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 49.5% of our total revenue for the Period (the same period of last year: 53.0%), increased by RMB32.8 million or 7.8%. The increase in operating expenditure is mainly attributable to an increase in operating expenses of RMB29.4 million arising from newly acquired and operated cemeteries and funeral facilities during the Period. Despite an increase in revenue from other comparable facilities, there was only a slight increase in operating expenses of RMB3.4 million or 0.8% due to more refined management and effective cost control.

The Group's staff costs include staff salaries, bonuses, benefits and amortization of share option cost. During the Period, the staff costs increased by RMB13.6 million or 7.7%. The increase was mainly due to an increase in the number of employees as a result of the expansion of the Group's business footprint and enhanced effort in developing our direct sales team as well as the increase in incentives for our direct sales team. It was partially offset by a decrease in the amortization of the cost of certain share options upon expiry of vesting periods for such options.

The construction cost represents our expenditures in building burial plot products (excluding stone materials). During the Period, the product construction cost increased by RMB4.9 million or 20.0%, mainly due to the fact that we have expanded operations and have been offering more beautiful environment, higher service quality, more timely and diversified choices to our customers.

Consumed materials and goods represent materials and goods consumed when we provide burial, funeral and other services. They also include the materials and goods consumed when we build burial plots and cremation machines. During the Period, the consumed materials and goods increased by approximately RMB11.7 million or 20.0%, which is mainly due to the business growth during the Period.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Period, the marketing and sales channel costs decreased by RMB7.6 million or 25.4%. Such decrease was mainly attributable to the optimization of our sales channel in certain regions, enhancement of our direct sales team to ensure the systematicness and high quality of our services, and commission policy adjustment to gradually reduce the reliance on external sales agents.

During the Period, depreciation and amortization increased by RMB11.6 million or 24.3%, which is mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from last year and amortisation of right-of-use assets recognised pursuant to new leasing standards.

Other general operating expenditures increased by RMB4.0 million or 6.8% compared to the same period of last year, which is mainly due to expanded operations and the newly-operated burial and funeral facilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, our operating profit for the Period increased by RMB89.7 million or 24.2% compared to the same period of last year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Period:

	Six Months Ended			
	June 30, 2019		June 30, 2018*	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	443,494	57.4%	360,840	52.4%
Funeral services	18,543	14.5%	13,185	14.4%
Other services	(1,568)	(9.7%)	(2,204)	(13.8%)
Inter-segment elimination	308	(6.3%)	(786)	12.2%
<b>Total</b>	<b>460,777</b>	<b>50.5%</b>	<b>371,035</b>	<b>47.0%</b>

\* For the purpose of comparison, segmental allocation of headquarter expenses is recalculated according to the method adopted during the Period.

During the Period, the operating profit margin of burial services increased to 57.4% from 52.4% for the same period of last year mainly because of higher revenue from burial services and effective cost control.

The new funeral facilities contributed to approximately half of the revenue growth of funeral services during the Period. These new facilities provide both basic funeral services and value-added funeral services. As most of these new funeral facilities are still in their initial stage of development, it takes time for them to steadily enhance their services and for their customers to know and then purchase their value-added services. Therefore, the profit margin of such new facilities was relatively low. Nevertheless, as the ASP of comparable facilities improved and due to efficient cost control, the operating profit margin of funeral service slightly increased to 14.5% for the Period from 14.4% for the same period of last year. We expect that these new funeral facilities will increase their ASP, service volume and profitability in future.

During the Period, other services segment recorded an operating loss of RMB1.6 million, which was mainly due to the operating costs incurred for cremation machines during the trial sale period. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening the rules and regulations on environmental protection by the government. The subsidiary, which offers design services was newly acquired in 2017 and has delivered satisfactory results during the Period, but it is still not sufficient to turn the whole segment of other services to be profitable.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCE COSTS

Finance costs for the Period consisted of interest expenses of RMB2.5 million on bank loans (the same period of last year: RMB2.5 million), interest expenses of RMB1.5 million (the same period of last year: RMB1.6 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities calculated based on lease standards of RMB1.5 million (the same period of last year: nil).

Interest expenses on loans from non-controlling shareholders represent the interest expenses of loans borrowed by certain non wholly-owned subsidiaries from their non-controlling shareholders. These subsidiaries were jointly invested by the Group and those non-controlling shareholders. Our Group and such non-controlling shareholders jointly provided funding to these subsidiaries for their project construction via shareholders' loan based on the respective shareholding percentages in addition to the registered capital. The interests are charged based on the market rates.

## OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses for the Period mainly include interest income, government grants received, exchange gains and losses, losses from assets disposal, donations and etc. Interest income for the Period was RMB24.2 million, decreased by RMB0.9 million from the same period of last year, mainly as a result of the decrease of RMB market capital return. Government subsidy for the Period was RMB8.2 million, increased by RMB2.4 million as compared to the same period of last year.

## INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, 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 22.1% (the same period of last year: 17.5%). The difference between the standard tax rate of 25% and the effective tax rate of 22.1% for the Period can be attributable to the following factors: (i) certain subsidiaries in western regions of China are subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions; (ii) certain subsidiaries were recognized as micro and small enterprises and were subject to a lower income tax rate of 10% according to relevant tax reduction policies; (iii) our interest income earned from bank deposits placed in Hong Kong is free from any income tax according to relevant Hong Kong tax rules; (iv) certain subsidiaries enjoy a tax deduction on exercise of share options by their employees as agreed by relevant tax authorities; and (v) the Group reverses certain prior year tax provisions when tax uncertainties on such provisions have been resolved during the Period.

During the Period, income tax expenses were RMB108.3 million, an increase of RMB38.5 million or 55.2% compared to the same period of last year, mainly as a result of increase in profit before tax due to growth of business and the significant decrease in gains upon exercise of share options by employees resulting in decrease of relevant tax exemption.

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

As mentioned above, our profit and total comprehensive income attributable to owners of the Company for the Period amounted to RMB296.9 million, increased by RMB34.8 million, or 13.3% compared to the same period of last year. This increase was primarily due to: (i) the overall growth of our revenue by 15.5%; and (ii) the steady increase in the operating profits resulting from continuous value improvement and efficient cost control, partly offset by the decline in RMB capital return and the increase in income tax expenses.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CASH FLOW

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

	Six Months Ended	
	June 30, 2019 (RMB'000)	June 30, 2018 (RMB'000)
Net cash generated from (used in)		
— operating activities	354,542*	304,003*
— investing activities	(102,315)*	(805,146)*
— financing activities	(131,600)	(17,780)
<b>Total</b>	<b>120,627</b>	<b>(518,923)</b>

\* During the Period, an amount of RMB50.6 million (the same period of last year: RMB91.4 million) related to the payment for cemetery land acquisition was here classified under the cash used in investing activities, instead of cash used in operating activities. This classification does not comply with International Financial Reporting Standards, however the management considers that this classification can reflect better the nature of the Group's business and can make the information disclosed more comparable.

We generated our cash from operating activities primarily from proceeds of our death care service businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, and other operating expenditures. Our net cash generated from operating activities amounted to RMB354.5 million for the Period, representing an increase of RMB50.5 million or 16.6% as compared to the same period of last year, maintaining our competitiveness as always in generating cash from our operating activities.

During the Period, the net cash used in investing activities amounted to RMB102.3 million. It was primarily due to: (i) payment of RMB92.3 million to acquire subsidiaries and other investments; (ii) payment of RMB50.8 million to acquire land use rights, including a piece of land for cemetery development purpose located in Nanchang City of Jiangxi Province, a piece of land for cemetery development purpose and another piece of land for funeral parlor construction purpose located in Xuancheng City of Anhui Province, and a piece of land for cemetery development purpose located in Qinzhou City of Guangxi Autonomous Region; and (iii) payment for building new burial and funeral facilities in Bishan District of Chongqing Municipality, Hohhot City of Inner Mongolia, Xuancheng City of Anhui Province, Zheng'an County, Zunyi City of Guizhou Province, Nanchang City and Yanshan County of Shangrao City in Jiangxi Province and Yancheng City and Gaoyou City in Jiangsu Province, and capital expenditures of RMB58.2 million for upgrades and maintenance in other cemeteries and funeral facilities, which were partly offset by the followings: (i) net redemption of time deposits and other financial assets of RMB76.7 million; and (ii) interests received of RMB20.5 million.

Our net cash used in financing activities amounted to RMB131.6 million for the Period. It was primarily due to: (i) final dividends for 2018 paid to shareholders of the Company of RMB73.3 million; (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB113.4 million; (iii) interest payment of RMB3.8 million for our borrowings; (iv) repayment of loans to non-controlling shareholders of RMB7.0 million; and (v) payment for lease liability of RMB 11.0 million. These cash outflows were partially offset by: (i) the proceeds of RMB62.4 million received upon exercise of share options by our employees; (ii) net increase of bank loans of RMB12.5 million; and (iii) the net capital contribution from the non-controlling shareholders of certain of our non wholly-owned subsidiaries totalled at RMB2.2 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2019, we had bank balances and cash of RMB1,614.3 million (December 31, 2018: RMB1,493.7 million), time deposits of RMB106.4 million (December 31, 2018: RMB48.3 million) and financial assets of RMB442.7 million (December 31, 2018: RMB577.4 million). Such financial assets represent cash management products with relatively lower risk ratings, which are repayable on demand and have maturity dates shorter than six months, or are repayable upon notice of withdrawn by the Company at its discretion. Such assets are highly dispersed and are managed by certain state-owned banks, with expected annualized return rates ranging from 2.70% to 4.05%. To support our expansion strategy, we hold a relatively high level of cash. In order to moderately increase capital returns, under the premise of ensuring safety and liquidity, we have allocated a part of treasury fund to short-term cash management products. Such products are issued and managed by state-owned banks and have clearly-specified expected return rates, maturity dates or are immediately redeemable. Even though the principals and return rates of such products are in theory and as stipulated, determined by reference to the performance of the underlying assets, such as government debt instruments, treasury notes and corporate bonds with high credit ratings, and not guaranteed by the issuing banks, they are secured in substance considering the features and historical performance of such products and present situation of bank system in the PRC. We internally regard our treasury fund put in such cash management products as part of our cash balance, however, from the accounting point of view, they are classified as the financial assets at fair value through profit or loss. In the foreseeable future, we expect to fund our capital expenditure, working capital and other capital requirements from the cash generated from our operations, bank borrowings, and other financing channels. Considering our low gearing ratio, we prefer to adopt the debt financing to meet any future financing requirements.

We had outstanding bank borrowings of RMB116.4 million as at June 30, 2019. Of this outstanding balance, RMB95.0 million is repayable within one year, RMB15.0 million is repayable within two years and RMB6.4 million is repayable within three years. These borrowings were dominated in RMB and were subject to floating interest rates ranging from 4.35% to 4.998% per annum. As at June 30, 2019, a non wholly-owned subsidiary of the Group had a loan of RMB25.1 million due to its non-controlling shareholder. The interest rate of the loan was 6.09% per annum without a specific repayment schedule. Another non wholly-owned subsidiary of the Group also had a loan of RMB27.0 million due to its non-controlling shareholder. Such loan is repayable within one year with interest rate at 4.35% per annum.

In addition, we had undrawn bank borrowing facilities of approximately RMB1,533.6 million as at June 30, 2019.

## 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 at June 30, 2019 was 3.9% (December 31, 2018: 4.0%). Our operation has been lightly leveraged because of our good cash generating capability from our operating activities. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not anticipate our gearing ratio will substantially increase considering the balance of bank and cash on hand. Therefore, we are exposed to limited interest rate risk.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CURRENCY RISK

The Group conducts its businesses in the PRC and its functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed the Group to foreign currency risk. As at June 30, 2019, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 96.1%, 2.3% and 1.6%, respectively, of the total amount of these assets. We believe the current level of financial assets, time deposits, bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management controls foreign currency risk by strictly managing the size of foreign currency risk exposure and closely observing the movement of foreign currency rates. We may, if necessary, hedge against foreign currency risk using financial instruments.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In December 2018, we signed an agreement to acquire 80% equity interest in Hubei Tianxian Cemetery at a consideration of RMB40.0 million. It mainly provides burial services in Xiantao City and Tianmen County of Hubei Province. The acquisition was completed in January 2019.

On January 22, 2019, a wholly-owned subsidiary of the Group entered into a limited partnership agreement with Yongying and Linxin in respect of the setting up of a funeral and cemetery buyout fund and the subscription of interests therein. Pursuant to the limited partnership agreement, the total capital commitment to the limited partnership fund is RMB800.2 million and each of Yongying, the Group and Linxin has committed to contribute RMB400 million, RMB399.2 million and RMB1 million to the limited partnership fund, respectively. Meanwhile, the Group and Yongying entered into a shortfall supplement agreement. For more details, please refer to our announcements dated January 22, 2019 and March 11, 2019. As of June 30, 2019, capital contribution made by the wholly-owned subsidiaries of the Group to such buyout fund amounted to RMB4.99 million. Future capital contribution will be made according to the project investment requirement of the buyout fund.

## EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2019, we had 2,287 full-time employees (December 31, 2018: 2,235). We offer competitive packages and benefits to our staff. 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 necessary skills and are remunerated according to their performance.

## CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of acquisition of subsidiaries, land use rights, other investments, cemetery assets and property and equipment in a total amount of approximately RMB91.1 million as at June 30, 2019. We also planned to provide approximately RMB271.2 million for the construction of new cemeteries and funeral facilities in Xuancheng City, Qinzhou City, Nanchang City, Ganzhou City, Gaoyou City, Qihe County of Shandong Province and Fuyang City.

We expect our capital expenditure in the second half of 2019 and afterwards will maintain at a relatively high level as we are actively seeking industry consolidation and government-enterprise collaboration opportunities and are being approached by many projects.

# MANAGEMENT DISCUSSION AND ANALYSIS

## ASSETS PLEDGED

As at June 30, 2019, we pledged 80% equity interest in Changzhou Qifengshan Cemetery to secure the bank borrowings granted to finance the acquisition of this subsidiary. Except for that, no other assets of the Group were pledged or charged.

## CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.30 million sq.m. as at June 30, 2019 (December 31, 2018: approximately 2.20 million sq.m.), which was sufficient to satisfy the needs of the Group's sustainable operation in the long run. When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for construction of tombs, such as the areas in connection with business centres, office buildings, 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 disclosed in our previous announcements, one of our subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. We had closed most of the lawsuits without substantial losses by the end of year 2018, with four outstanding lawsuits remaining. There has been no notifiable progress on these four lawsuits during the Period. Their status remains substantially unchanged from those set out in our latest announcement on the matter. The aggregate of claim amount of such four lawsuits was approximately RMB57.1 million (including the claimed principal and contingent interests).

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 June 30, 2019, after taking into account of the legal opinion and the current status of the proceedings and investigation, the Directors were of the view that the proceedings would in the end result in a material adverse impact on the financial position and business operation of the Group was not probable and concluded that no provision should 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

There was no significant event that might affect the Group subsequent to the Period.



# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Looking ahead, we will continue to do our best in the death care industry in China, leading the industry revolution and improving services quality by continuous innovation and giving more respect, as well as cultural, environmental, technological, and charitable connotation to death care services. We will adhere to our strategy of expansion, look for suitable growth opportunities, strive for external development and business chain perfecting, consolidate the highly disintegrated resources of the PRC's death care industry, and boost our market share to cater for more people's need for high quality death care services. We will push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business, 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 become an important segment of the Group's business. With much effort to promoting pre-need business with the pre-need contract business as the core 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 and the scale of professional design business, and foster the integration of death care business with the internet to improve service contents and accessibility and formulate our plan for the business of death care related consumables. Last but not least, while promote growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at a more steady and 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, 2019, 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	4.33%
	Beneficial owner	Long position	10,453,452	0.47%
Mr. Wang Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.33%
	Beneficial owner	Long position	10,453,452	0.47%
Mr. Tan Leon Li-an	Beneficial owner	Long position	400,000	0.02%
Mr. Lu Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.24%
Mr. Huang James Chih-cheng	Beneficial owner	Long position	400,000	0.02%

Notes:

- Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.33% 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.
- Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field, which in turn is interested in approximately 4.33% 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.
- Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire, which in turn is interested in approximately 1.24% of the issued share capital of the Company.

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

The Directors have been granted options under the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at June 30, 2019, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# OTHER INFORMATION

## SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on December 3, 2013 and shall be valid and effective for a period of 10 years from the adoption 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.

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, 2019:

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options outstanding balance as at January 1, 2019	Options	Options	Options	Options	Options outstanding as at June 30, 2019	Exercisable period
					Granted during the six months ended June 30, 2019	exercised during the six months ended June 30, 2019	lapsed during the six months ended June 30, 2019	cancelled during the six months ended June 30, 2019		
<i>Directors</i>										
Bai Xiaojiang	March 19, 2015	3.126	3.16	1,500,000	—	1,500,000 <sup>1</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	—	2,000,000 <sup>2</sup>	—	—	—	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020
	March 20, 2017	4.850	4.82	5,000,000	—	—	—	—	5,000,000	March 20, 2019 to March 19, 2021
Tan Leon Li-an	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
Wang Jisheng	March 19, 2015	3.126	3.16	1,500,000	—	1,500,000 <sup>1</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	—	2,000,000 <sup>2</sup>	—	—	—	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020
	March 20, 2017	4.850	4.82	5,000,000	—	—	—	—	5,000,000	March 20, 2019 to March 19, 2021
Ma Xiang	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
Lu Hesheng	March 19, 2015	3.126	3.16	500,000	—	500,000 <sup>3</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	500,000	—	—	—	—	500,000	March 20, 2019 to March 19, 2021
Chen Qunlin	March 19, 2015	3.126	3.16	300,000	—	300,000 <sup>4</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Luo Zhuping	March 19, 2015	3.126	3.16	300,000	—	300,000 <sup>4</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Ho Man	March 19, 2015	3.126	3.16	300,000	—	300,000 <sup>4</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Wu Jianwei	March 19, 2015	3.126	3.16	300,000	—	300,000 <sup>4</sup>	—	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Other employees of the Group (in aggregate)	March 19, 2015	3.126	3.16	9,799,000	—	8,299,000 <sup>5</sup>	1,500,000	—	—	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	35,443,000	—	1,363,000 <sup>6</sup>	—	—	34,080,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	38,300,000	—	—	—	—	38,300,000	March 20, 2019 to March 19, 2021
<b>Total</b>				<b>108,642,000</b>	<b>—</b>	<b>18,362,000</b>	<b>1,500,000</b>	<b>—</b>	<b>88,780,000</b>	



## OTHER INFORMATION

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$5.81.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.35.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.96.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$5.78.

Note 5: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$5.66.

Note 6: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.02.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2019.

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

On January 4, 2019, the Company bought back 50,000 shares on the Stock Exchange at an average price of HK\$5.2446 each (an aggregate consideration of HK\$262,230 before deducting expenses), which will be cancelled. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

## OTHER INFORMATION

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

As at June 30, 2019, 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	388,318,000	17.39%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	388,318,000	17.39%
Perfect Score	Beneficial owner	Long position	483,000,000	21.63%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	21.63%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	21.63%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	21.63%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	21.63%
UBS Trustees (BVI) Limited	Trustee	Long position	193,200,000	8.65%
Double Riches	Beneficial owner	Long position	119,445,000	5.35%
Mr. Ge Qiansong	Interest in a controlled corporation (Note 6)	Long position	119,445,000	5.35%
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	6.78%
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	6.78%

\* For identification purpose only

# OTHER INFORMATION

## Notes:

1. Mr. Tan Tize Shune (also known as “Tan Chih Chun”), the father of Mr. 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 17.39% 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 21.63% 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 21.63% 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 21.63% 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 21.63% of the issued share capital of the Company in which Perfect Score is interested in.
6. Mr. Ge Qiansong is interested in approximately 34.66% of the issued share capital of Double Riches and therefore Mr. Ge Qiansong is deemed or taken to be interested in approximately 5.35% 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 6.78% 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, 2019, 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, 2019.

No incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended June 30, 2019.

## CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

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

### INTERIM DIVIDEND

The Board has declared an interim dividend of HK\$4.21 cents per Share for the six months ended June 30, 2019 (2018: HK3.72 cents per Share). The interim dividend is expected to be payable to the Shareholders on or before Friday, October 11, 2019. 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 9, 2019.

### CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, September 5, 2019 to Monday, September 9, 2019, 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, September 4, 2019.

### 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 the opinion that the Company has complied with the code provisions as set out in the CG Code throughout the six months ended June 30, 2019.

### REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2019 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, 2019.

# 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 29 to 65, which comprise the condensed consolidated statement of financial position as of June 30, 2019 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 9, 2019

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

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	NOTES	For the six months ended June 30,	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	911,724	789,215
Operating expenditures			
Staff costs		(190,218)	(176,627)
Construction costs		(29,096)	(24,238)
Consumed materials and goods		(70,080)	(58,380)
Outsourced service costs		(23,421)	(24,292)
Marketing and sales channel costs		(22,411)	(30,057)
Depreciation and amortisation		(59,383)	(47,793)
Other general operating expenditures		(63,365)	(59,347)
Inventory changes		7,027	2,554
Profit from operations		460,777	371,035
Finance costs	5	(5,473)	(4,090)
Other income, gains and losses	6	35,048	31,175
Profit before taxation	7	490,352	398,120
Income tax expense	8	(108,330)	(69,802)
Profit and total comprehensive income for the period		<u>382,022</u>	<u>328,318</u>
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Company		296,913	262,088
Non-controlling interests		85,109	66,230
		<u>382,022</u>	<u>328,318</u>
		<b>RMB cents</b>	<b>RMB cents</b>
Earnings per share — Basic	10	13.3	12.0
— Diluted	10	13.2	11.7

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2019

	NOTES	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
<b>Non-current assets</b>			
Property and equipment	11	550,654	545,000
Right-of-use assets	3, 11	132,385	—
Prepaid lease payments	3	—	34,072
Investment property		6,509	6,509
Intangible assets	11	81,521	21,643
Goodwill	12	441,581	428,021
Financial assets at fair value through profit or loss	17	29,761	29,761
Deposits paid for acquisition of land use rights		9,054	19,655
Cemetery assets	13	1,502,695	1,415,849
Investment in associates		5,738	750
Investment in a joint venture		1,000	—
Restricted deposits		52,578	46,852
Deferred tax assets	14	50,918	45,377
Other long-term assets		6,050	25,339
		<b>2,870,444</b>	<b>2,618,828</b>
<b>Current assets</b>			
Inventories	15	472,676	448,003
Trade and other receivables	16	59,096	51,504
Financial assets at fair value through profit or loss	17	442,675	577,420
Time deposits	18	106,378	48,298
Bank balances and cash	19	1,614,278	1,493,651
		<b>2,695,103</b>	<b>2,618,876</b>
<b>Current liabilities</b>			
Trade and other payables	20	369,012	434,296
Lease liabilities		17,078	—
Contract liabilities	22	39,955	35,442
Loans from non-controlling shareholders of subsidiaries		26,950	26,950
Income tax liabilities		144,347	143,927
Borrowings	21	95,000	75,000
		<b>692,342</b>	<b>715,615</b>
<b>Net current assets</b>		<b>2,002,761</b>	<b>1,903,261</b>
<b>Total assets less current liabilities</b>		<b>4,873,205</b>	<b>4,522,089</b>

(Continued)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2019

	NOTES	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
<b>Non-current liabilities</b>			
Contract liabilities	22	315,484	301,801
Lease liabilities		71,317	—
Other long-term liabilities		20,951	13,774
Loans from non-controlling shareholders of subsidiaries		25,143	31,969
Borrowings	21	21,360	28,860
Deferred tax liabilities	14	94,070	94,802
		<u>548,325</u>	<u>471,206</u>
<b>Net assets</b>		<u><u>4,324,880</u></u>	<u><u>4,050,883</u></u>
<b>Capital and reserves</b>			
Share capital	23	136,168	134,920
Reserves		3,670,054	3,377,511
Equity attributable to owners of the Company		<u>3,806,222</u>	<u>3,512,431</u>
Non-controlling interests		<u>518,658</u>	<u>538,452</u>
<b>Total equity</b>		<u><u>4,324,880</u></u>	<u><u>4,050,883</u></u>

The condensed consolidated financial statements on page 29 to 65 were approved and authorized for issue by the Board of Directors on August 9, 2019 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, 2019

	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Subtotal attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At December 31, 2017 (Audited)	131,666	—	1,179,342	84,667	116,861	26,784	78,722	1,400,121	3,018,163	586,341	3,604,504
Adjustment of application of IFRS 9, IFRS 15	—	—	—	—	—	—	—	—	—	—	—
At January 1, 2018	131,666	—	1,179,342	84,667	116,861	26,784	78,722	1,400,121	3,018,163	586,341	3,604,504
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	262,088	262,088	66,230	328,318
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	40,571	40,571
Dividends recognized as distributions (note 9)	—	—	(57,969)	—	—	—	—	—	(57,969)	—	(57,969)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(87,595)	(87,595)
Transfer to statutory reserve	—	—	—	—	519	—	—	(519)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	3,600	3,600
Acquisition of non-controlling interests of a subsidiary (note)	—	—	—	—	—	(51,433)	—	—	(51,433)	(68,567)	(120,000)
Exercise of share options	2,590	—	146,793	—	—	—	(22,686)	—	126,697	—	126,697
Share based compensation	—	—	—	—	—	—	17,041	—	17,041	—	17,041
At June 30, 2018 (Unaudited)	134,256	—	1,268,166	84,667	117,380	(24,649)	73,077	1,661,690	3,314,587	540,580	3,855,167

Note: In March 2018, the Group acquired 20% non-controlling interests of Guanlingshan Cultural Cemetery from its minority shareholders.

At December 31, 2018 (Audited)	134,920	—	1,232,702	84,667	131,067	(26,260)	81,056	1,874,279	3,512,431	538,452	4,050,883
Adjustment of application of IFRS 16	—	—	—	—	—	—	—	—	—	—	—
At January 1, 2019	134,920	—	1,232,702	84,667	131,067	(26,260)	81,056	1,874,279	3,512,431	538,452	4,050,883
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	296,913	296,913	85,109	382,022
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	6,610	6,610
Dividends recognized as distributions (note 9)	—	—	(73,292)	—	—	—	—	—	(73,292)	—	(73,292)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(113,797)	(113,797)
Transfer to statutory reserve	—	—	—	—	1,495	—	—	(1,495)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	2,200	2,200
Repurchase of shares	—	(234)	—	—	—	—	—	—	(234)	—	(234)
Disposal of partial interest in a subsidiary	—	—	—	—	—	16	—	—	16	84	100
Exercise of share options	1,248	—	71,765	—	—	—	(10,655)	—	62,358	—	62,358
Share based compensation	—	—	—	—	—	—	8,030	—	8,030	—	8,030
At June 30, 2019 (Unaudited)	136,168	(234)	1,231,175	84,667	132,562	(26,244)	78,431	2,169,697	3,806,222	518,658	4,324,880

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	<b>For the six months ended June 30,</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	490,352	398,120
Adjustments for:		
Finance costs	5,473	4,090
Interest income	(24,248)	(25,170)
Depreciation of property and equipment	22,570	19,473
Amortization of right-of-use assets	10,050	—
Amortization of prepaid lease payments	—	286
Amortization of intangible assets	2,920	1,200
Amortization of cemetery assets	23,843	24,085
Amortization of other long-term assets	—	310
Net gain on disposal of property and equipment	(61)	(24)
Expense recognized in respect of equity-settled share based payments	8,030	17,041
	<hr/>	<hr/>
Operating cash flows before movements in working capital	538,929	439,411
Increase in restricted deposits	(5,726)	(3,574)
(Increase) decrease in cemetery assets and inventories	(46,672)	5,721
Increase in deposits paid for acquisition of land as cemetery assets	—	(91,409)
Increase in trade and other receivables	(7,768)	(13,705)
Decrease in trade and other payables	(77,145)	(48,048)
Increase in contract liabilities	17,877	19,987
	<hr/>	<hr/>
Cash generated from operations	419,495	308,383
Income taxes paid	(115,508)	(95,789)
	<hr/>	<hr/>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>303,987</b>	212,594
<b>INVESTING ACTIVITIES</b>		
Additions to and deposits paid for property and equipment	(56,509)	(50,623)
Prepayments and purchase of intangible assets	(51,479)	(3,370)
Addition to and deposits paid for acquisition of land use rights	—	(9,123)
Prepayment to right-of-use assets	(228)	—
Proceeds on disposal of property and equipment	305	236
Acquisition of subsidiaries	(36,503)	(98,595)
Placement of project deposit	—	(5,000)
Deposit for acquisition of non-controlling interests of a subsidiary	—	(4,500)
Interest received	20,477	18,824
Acquisition of non-controlling interests of a subsidiary	—	(120,000)
Investment to associates	(4,988)	(750)
Investment to a joint venture	(1,000)	—
Repayment of entrusted loan	1,500	1,000
Withdrawal of time deposits	—	10,000
Placement of time deposits	(58,080)	(360,218)
Withdrawal of financial assets at fair value through profit or loss	291,210	—
Purchase of financial assets at fair value through profit or loss	(156,465)	(91,618)
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(51,760)</b>	(713,737)

(Continued)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	20,000	—
Repayment of bank borrowings	(7,500)	(18,000)
Repayments to non-controlling interests	(7,000)	—
Capital contribution from non-controlling interests	2,200	3,600
Loans raised from non-controlling shareholders of subsidiaries	—	16,950
Interest paid	(3,751)	(10,904)
Dividends paid to non-controlling interests	(113,440)	(78,154)
Dividends paid to owners of the Company	(73,292)	(57,969)
Proceeds from exercise of share options	62,358	126,697
Payment for repurchase of ordinary shares	(234)	—
Disposal of partial interest in a subsidiary	100	—
Repayments of lease liabilities	(11,041)	—
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(131,600)</b>	<b>(17,780)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>120,627</b>	<b>(518,923)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,493,651</b>	<b>1,936,992</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>1,614,278</b>	<b>1,418,069</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 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 have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 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 other 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 International Accounting Standard 34 (IAS 34) *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

## 3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and certain amendments to International Financial Reporting Standards (“IFRS”) issued by IASB which are mandatorily effective for the annual period beginning on or after January 1, 2019 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 16	<i>Leases</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to IFRSs	<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* (“IAS 17”), and the related interpretations.

#### ***3.1.1 Key changes in accounting policies resulting from application of IFRS 16***

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### *As a lessee*

##### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

##### Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.1 Key changes in accounting policies resulting from application of IFRS 16 – *continued*

*As a lessee – continued*

Right-of-use assets – *continued*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are presented as separate line item

The Group presents right-of-use assets that directly related to cemetery in cemetery assets.

The Group presents right-of-use assets that do not meet the definition of investment property and cemetery assets as a separate line item on the condensed consolidated statement of financial position.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES — *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases — *continued*

#### 3.1.1 Key changes in accounting policies resulting from application of IFRS 16 — *continued*

*As a lessee — continued*

##### Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments (“IFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.1 Key changes in accounting policies resulting from application of IFRS 16 – *continued*

*As a lessee – continued*

##### Lease liabilities – *continued*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

##### Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

##### Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.2 Transition and summary of effects arising from initial application of IFRS 16

##### *Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

##### *As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.2 Transition and summary of effects arising from initial application of IFRS 16 – *continued*

*As a lessee – continued*

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.35%.

	At January 1, 2019 RMB'000
Operating lease commitments disclosed as at December 31, 2018	105,331
Lease liabilities discounted at relevant incremental borrowing rates	90,147
Less:	
Recognition exemption – short-term leases	1,667
Lease liabilities relating to operating leases recognized upon application of IFRS 16	<u>88,480</u>
Analyzed as	
Current	14,670
Non-current	<u>73,810</u>
Lease liabilities as at January 1, 2019	<u><u>88,480</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.2 Transition and summary of effects arising from initial application of IFRS 16 – *continued*

*As a lessee – continued*

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

		<b>Right-of-use Assets RMB'000</b>
Right-of-use assets relating to operating leases recognized upon application of IFRS 16		88,480
Reclassified from prepaid lease payments	(a)	34,072
Reclassified from rental prepayments	(a)	2,537
		<u>125,089</u>
By class:		
Leasehold lands		39,829
Buildings		<u>85,260</u>
		<u><u>125,089</u></u>

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the prepaid lease payments amounting to RMB34,072,000 and the rental prepayments amounting to RMB2,537,000 were reclassified to right-of-use assets respectively.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### 3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases – *continued*

#### 3.1.2 Transition and summary of effects arising from initial application of IFRS 16 – *continued*

*As a lessee – continued*

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at January 1, 2019 RMB'000
<b>Current Assets</b>				
Trade and other receivables	(b)	51,504	(2,537)	48,967
<b>Non-current Assets</b>				
Prepaid lease payments	(a)	34,072	(34,072)	–
Right-of-use assets	(a), (b)	–	125,089	125,089
<b>Current Liabilities</b>				
Lease liabilities	(c)	–	(14,670)	(14,670)
<b>Non-current liabilities</b>				
Lease liabilities	(c)	–	(73,810)	(73,810)

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended June 30, 2019, movements in working capital have been computed based on opening statement of financial position as at January 1, 2019 as disclosed above.

- (a) As at January 1, 2019, prepaid lease payments of RMB34,072,000 were reclassified to right-of-use assets.
- (b) As at January 1, 2019, rental prepayments of RMB2,537,000 were reclassified to right-of-use assets.
- (c) As at January 1, 2019, current lease liabilities and non-current lease liabilities of RMB14,670,000 and RMB73,810,000 were recognized respectively.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 4A. REVENUE FROM GOODS AND SERVICES

### Disaggregation of revenue

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Geographical markets		
Mainland China	<u>911,724</u>	<u>789,215</u>
Timing of revenue recognition		
A point in time	<u>886,539</u>	<u>770,348</u>
Over time	<u>25,185</u>	<u>18,867</u>
Total	<u>911,724</u>	<u>789,215</u>

## 4B. 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 — including provision of landscape and garden design services; and production and sale of cremation machines and the related maintenance services.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 4B. SEGMENT INFORMATION – *continued*

### Segment revenues and results

	Burial services RMB'000	Funeral services RMB'000	Others services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30, 2019</i>						
<i>(unaudited):</i>						
External sales	772,288	128,256	11,180	911,724	–	911,724
Inter-segment sales	–	–	4,905	4,905	(4,905)	–
Total	772,288	128,256	16,085	916,629	(4,905)	911,724
Segment profit (loss)	443,494	18,543	(1,568)	460,469	308	460,777
Other income, gains and losses						35,048
Finance costs						(5,473)
Profit before taxation						<u>490,352</u>
	Burial services RMB'000	Funeral services RMB'000	Others services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30, 2018</i>						
<i>(unaudited):</i>						
External sales	687,977	91,777	9,461	789,215	–	789,215
Inter-segment sales	–	–	6,453	6,453	(6,453)	–
Total	687,977	91,777	15,914	795,668	(6,453)	789,215
Segment profit (loss) (Note)	360,840	13,185	2,204	371,821	(786)	371,035
Other income, gains and losses						31,175
Finance costs						(4,090)
Profit before taxation						<u>398,120</u>

Note: For the purpose of comparison, segmental allocation of headquarter expenses is recalculated according to the method adopted during the Period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 4B. SEGMENT INFORMATION – *continued*

### Segment revenues and results – *continued*

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, gains and losses 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.

## 5. FINANCE COSTS

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest expense on bank borrowings	2,475	2,506
Interest expense on loans from non-controlling interests	1,520	1,584
Interest accretion for lease liabilities	1,478	—
Total finance costs	<u>5,473</u>	<u>4,090</u>

## 6. OTHER INCOME, GAINS AND LOSSES

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest income	24,248	25,170
Government grants	8,207	5,829
Net foreign exchange gain	1,291	1,219
Others	1,302	(1,043)
Total	<u>35,048</u>	<u>31,175</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Staff costs, including remuneration of the Directors of the company (the "Directors")		
Salaries, wages, bonus and other benefits	169,198	149,456
Retirement benefits scheme contributions	12,990	10,130
Share based payments expenses	8,030	17,041
Total staff costs	<u>190,218</u>	<u>176,627</u>
Depreciation of property and equipment	22,570	19,473
Amortization of right-of-use assets	10,050	—
Amortization of prepaid lease payments	—	286
Amortization of intangible assets	2,920	1,200
Amortization of cemetery assets	23,843	26,524
Amortization of other long-term assets	—	310



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 8. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("PRC EIT")	117,520	77,735
Over provision in prior years	(1,592)	(2,854)
Deferred tax (Note 14)	(7,598)	(5,079)
	<u>108,330</u>	<u>69,802</u>

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 majority of PRC subsidiaries is 25%.

## 9. DIVIDENDS

	For the six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Dividends for ordinary shareholders of the Company recognized as distribution during the period		
2018 Final — HK3.72 cents (2018: 2017 final dividend — HK3.24 cents) per share	<u>73,292</u>	<u>57,969</u>

Subsequent to the end of the current interim period, the Directors have declared an interim dividend of HK4.21 cents per share (2018: HK3.72 cents per share).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 10. 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,	
	2019 (Unaudited)	2018 (Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>296,913</u>	<u>262,088</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,228,885,941</u>	2,180,894,303
Effect of dilutive potential ordinary shares:		
Share options	<u>17,497,867</u>	<u>50,594,597</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,246,383,808</u></u>	<u><u>2,231,488,900</u></u>

## 11. MOVEMENTS IN PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

During the period, the Group acquired property and equipment of approximately RMB28,468,000 (six months ended June 30, 2018: RMB71,317,000), among which RMB2,728,000 was acquired through acquisition of subsidiaries for business expansion.

During the period, the Group disposed of property and equipment with carrying amount of approximately RMB244,000 (six months ended June 30, 2018: RMB212,000) for cash proceeds of approximately RMB305,000 (six months ended June 30, 2018: RMB236,000) resulting in a gain on disposal of approximately RMB61,000 (six months ended June 30, 2018: gain of RMB24,000).

As at June 30, 2019, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB138,073,000 (December 31, 2018: RMB119,682,000) had not been obtained.

During the period, the Group entered into new lease agreements for the use of business operation for 2 to 5 years. The Group is required to make regular fix payments to the lessors. Upon lease commencement, the Group recognized RMB17,346,000 of right-of-use assets and RMB9,147,000 lease liabilities in total.

During the period, the Group acquired intangible assets of approximately RMB62,798,000 (six months ended June 30, 2018: RMB3,369,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 12. GOODWILL

The movements in goodwill during the six months ended June 30, 2019 are as follows:

	<b>For the six months ended June 30, 2019 RMB'000 (Unaudited)</b>
<b>COST</b>	
At the beginning of the period	<b>428,021</b>
Arising on acquisition of subsidiaries (Note 25)	<b>13,560</b>
	<hr/>
At the end of the period	<b>441,581</b>
	<hr/> <hr/>

## 13. CEMETERY ASSETS

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Land costs	<b>1,010,070</b>	943,613
Landscape facilities	<b>205,154</b>	187,193
Development cost	<b>287,471</b>	285,043
	<hr/>	<hr/>
	<b>1,502,695</b>	1,415,849
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 14. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the six months ended June 30, 2019:

	<b>Contract liabilities</b> RMB'000	<b>Tax losses</b> RMB'000	<b>Fair value adjustment</b> RMB'000	<b>Total</b> RMB'000
At January 1, 2018 (audited)	27,243	8,674	(84,612)	(48,695)
Acquisition of subsidiaries	—	—	(12,673)	(12,673)
Credit to profit or loss (Note 8)	<u>1,871</u>	<u>1,383</u>	<u>1,825</u>	<u>5,079</u>
At June 30, 2018 (unaudited)	<u>29,114</u>	<u>10,057</u>	<u>(95,460)</u>	<u>(56,289)</u>
At January 1, 2019 (audited)	<b>31,123</b>	<b>12,158</b>	<b>(92,706)</b>	<b>(49,425)</b>
Acquisition of subsidiaries (Note 25)	—	—	<b>(1,325)</b>	<b>(1,325)</b>
Credit to profit or loss (Note 8)	<u>2,296</u>	<u>3,261</u>	<u>2,041</u>	<u>7,598</u>
At June 30, 2019 (unaudited)	<u><b>33,419</b></u>	<u><b>15,419</b></u>	<u><b>(91,990)</b></u>	<u><b>(43,152)</b></u>

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:

	<b>June 30, 2019</b> RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Deferred tax assets	<b>50,918</b>	45,377
Deferred tax liabilities	<u><b>(94,070)</b></u>	<u>(94,802)</u>
	<u><b>(43,152)</b></u>	<u>(49,425)</u>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 14. DEFERRED TAXATION – *continued*

The Group has unused tax losses of approximately RMB94,624,000 (December 31, 2018: RMB106,791,000) as at June 30, 2019. Deferred tax assets have been recognized in respect of approximately RMB61,675,000 (December 31, 2018: RMB48,632,000) of such losses as at June 30, 2019. No deferred tax assets have been recognized in respect of the remaining approximately RMB32,949,000 (December 31, 2018: RMB58,159,000) as at June 30, 2019 due to the unpredictability of future profit streams.

Pursuant to the rules and regulations in the PRC, the unrecognized tax losses at the end of each reporting period will expire in five years. The deductible taxable losses which are not recognized as deferred tax assets will expire in the following years as follows:

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
2019	–	8,855
2020	<b>373</b>	206
2021	<b>6,120</b>	6,942
2022	<b>6,406</b>	7,997
2023	<b>11,655</b>	34,159
2024	<b>8,395</b>	–
	<b>32,949</b>	58,159

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 15. INVENTORIES

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Burial Plots	329,379	308,525
Tombstone	89,036	91,550
Others	54,261	47,928
	<b>472,676</b>	<b>448,003</b>

## 16. TRADE AND OTHER RECEIVABLES

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Trade receivables	13,540	14,778
Other receivables comprise:		
Prepayments and deposits on rental properties	1,954	3,632
Staff advances	4,787	1,791
Entrusted loan (Note)	10,450	11,950
Bond for new projects	3,299	3,462
Prepayments to suppliers	7,380	2,196
Others	17,686	13,695
	<b>59,096</b>	<b>51,504</b>

Note: As at June 30, 2019, the Group has advanced a loan amounting to RMB10,450,000 (December 31, 2018: RMB11,950,000) 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 service and funeral services. The Group may allow a credit period to its customers for sales of cremation machines, provision of landscape and garden design services, and services offered to local funeral administration authorities. Before accepting any new customer asking for credit period, 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, 2019

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

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

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Within one year	8,702	10,207
Over one year but less than two years	1,478	—
Over two years but less than three years	3,360	4,571
	<b>13,540</b>	<b>14,778</b>

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 end of the reporting period. After reassessment, the Directors are of the view that no allowance is required.

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at fair value through profit or loss (“FVTPL”) :

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Unlisted cash management products (a)	442,675	577,420
Equity investment (b)	29,761	29,761
	<b>472,436</b>	<b>607,181</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

### (a) Unlisted cash management products

During the period, the Group purchased a number of cash management products from banks as part of its treasury management. The entire combined contracts have been accounted as financial assets at FVTPL on initial recognition. The principal of RMB442,675,000 was not guaranteed by the relevant banks. The expected return rate stated in the contracts of all financial assets at FVTPL ranges from 2.70% to 4.05% per annum.

In the opinion of the Directors, the fair value of the cash management products at June 30, 2019 approximated their principal amounts.

### (b) Equity investment

In July 2018, the Group has made an equity investment of Changchun Huaxia Cemetery Co., Ltd. (“Huaxia Cemetery”) in the amount of RMB29,000,000, accounting for 10% of the total equity interests and this equity investment was measured at FVTPL. Huaxia Cemetery is an unlisted company providing burial services in Changchun City of Jilin Province.

In the opinion of the Directors, the fair value was about RMB30 million as at June 30, 2019 and the fair value change of these equity investments is insignificant since the initial recognition. The performance of Huaxia Cemetery for the period ended June 30, 2019 was consistent with the expectation at time of investment decision.

## 18. TIME DEPOSITS

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
RMB-denominated (Note)	<b>106,378</b>	48,298

Note: As at June 30, 2019, the Group had fixed-term deposits of RMB106,378,300 in banks with maturity ranging from six months to one year and fixed interest rate of 1.937% to 3.700% per annum (December 31, 2018: fixed interest rate of 1.920% to 1.937% per annum).



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 19. BANK BALANCES AND CASH

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

	<b>June 30, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
Interest rate per annum		
– RMB	<b>0.35%–3.50%</b>	0.30%–4.35%
– HK\$	<b>0.01%</b>	0.01%–2.45%
– US\$	<b>0.05%–1.20%</b>	0.05%

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

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
HK\$	<b>50,114</b>	74,500
US\$	<b>33,620</b>	33,360
	<b><u>83,734</u></b>	<u>107,860</u>

## 20. TRADE AND OTHER PAYABLES

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Trade payables	<b><u>167,452</u></b>	<u>165,393</u>
Other payables comprise:		
Advances and deposits from customers	<b>20,835</b>	14,688
Payables for acquisition of property and equipment	<b>604</b>	604
Salary, welfare and bonus payables	<b>85,316</b>	139,541
Other accrued expenses	<b>31,687</b>	49,134
Consideration for acquisition of subsidiaries	<b>42,372</b>	39,578
Others	<b><u>20,746</u></b>	<u>25,358</u>
	<b><u>369,012</u></b>	<u>434,296</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 20. 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, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
0–90 days	90,944	62,467
91–180 days	13,183	17,485
181–365 days	21,042	15,139
Over 365 days	42,283	70,302
	<b>167,452</b>	<b>165,393</b>

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

## 21. BORROWINGS

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Bank borrowings		
– Secured by the Group's equity interest in subsidiaries	36,360	43,860
– Unsecured	80,000	60,000
	<b>116,360</b>	<b>103,860</b>
Less: amounts due within one year shown under current liabilities	<b>(95,000)</b>	<b>(75,000)</b>
Amounts shown under non-current liabilities	<b>21,360</b>	<b>28,860</b>

The bank borrowings carried interest at 4.350% to 4.998% per annum (December 31, 2018: 4.350% to 4.998%).

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

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Net book value of the Group's equity interest in subsidiaries	<b>119,502</b>	<b>121,630</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 22. CONTRACT LIABILITIES

Contract liabilities represent the portion of the revenue generated from the provision of burial and funeral services that has not been earned as revenue in accordance with the revenue recognition policy and the nature of the business.

## 23. SHARE CAPITAL

Issued and fully paid:

	Number of shares	Amount US\$	Share capital RMB'000
At January 1, 2019 (Audited)	2,215,074,422	22,150,744	134,920
Exercise of share options (Note 24)	<u>18,362,000</u>	<u>183,620</u>	<u>1,248</u>
At June 30, 2019 (Unaudited)	<u>2,233,436,422</u>	<u>22,334,364</u>	<u>136,168</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, 2019

## 24. SHARE BASED COMPENSATION

### Share Option Scheme

Set out below are details of movements in the outstanding options granted under the Share Option Scheme during the six months ended June 30, 2019:

	Date of grant	Exercise price per Share (HK\$)	Number of options				Options balance outstanding as at June 30, 2019
			Options balance outstanding as at January 1, 2019	Granted during the six months ended June 30, 2019	Exercised during the six months ended June 30, 2019	Forfeited during the six months ended June 30, 2019	
<b>Directors</b>							
Bai Xiaojiang	March 19, 2015	3.126	1,500,000	—	(1,500,000)	—	—
	March 24, 2016	5.824	2,000,000	—	(2,000,000)	—	—
	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	March 20, 2017	4.850	5,000,000	—	—	—	5,000,000
Wang Jisheng	March 19, 2015	3.126	1,500,000	—	(1,500,000)	—	—
	March 24, 2016	5.824	2,000,000	—	(2,000,000)	—	—
	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	March 20, 2017	4.850	5,000,000	—	—	—	5,000,000
Tan Leon Li-an	March 24, 2016	5.824	500,000	—	—	—	500,000
Ma Xiang	March 24, 2016	5.824	500,000	—	—	—	500,000
Lu Hesheng	March 19, 2015	3.126	500,000	—	(500,000)	—	—
	March 24, 2016	5.824	500,000	—	—	—	500,000
	March 20, 2017	4.850	500,000	—	—	—	500,000
Chen Qunlin	March 19, 2015	3.126	300,000	—	(300,000)	—	—
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Luo Zhuping	March 19, 2015	3.126	300,000	—	(300,000)	—	—
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Ho Man	March 19, 2015	3.126	300,000	—	(300,000)	—	—
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Wu Jianwei	March 19, 2015	3.126	300,000	—	(300,000)	—	—
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
			<b>25,100,000</b>	<b>—</b>	<b>(8,700,000)</b>	<b>—</b>	<b>16,400,000</b>
<b>Other employees</b>							
	March 19, 2015	3.126	9,799,000	—	(8,299,000)	(1,500,000)	—
	March 24, 2016	5.824	35,443,000	—	(1,363,000)	—	34,080,000
	March 20, 2017	4.850	38,300,000	—	—	—	38,300,000
<b>Total</b>			<b>108,642,000</b>	<b>—</b>	<b>(18,362,000)</b>	<b>(1,500,000)</b>	<b>88,780,000</b>
Exercisable at June 30			<b>33,642,000</b>				<b>63,780,000</b>
Weighted average exercise price (HK\$)			<b>5.01</b>	<b>N/A</b>	<b>3.91</b>	<b>3.13</b>	<b>5.27</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 24. SHARE BASED COMPENSATION – *continued*

### Share Option Scheme – *continued*

As at June 30, 2019, 88,780,000 (December 31, 2018: 108,642,000) share options remain outstanding under the Share Option Scheme, representing 3.98% (December 31, 2018: 4.90%) of the ordinary shares of the Company in issue at that date.

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise is HK\$5.97 (for the six-month ended June 30, 2018: HK\$8.00).

The Group recognized the total expense of approximately RMB8,030,000 (for the six-month ended June 30, 2018: RMB17,041,000) for the six-month ended June 30, 2019 in relation to share options granted by the Company under Share Option Scheme.

## 25. ACQUISITION OF A SUBSIDIARY

### Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”)

In December 2018, Shanghai Fu Shou Yuan Industry Development Co., Ltd (“Shanghai FSY”), a wholly-owned subsidiary of the Group, entered into an agreement with independent third parties to acquire 80% equity interest of Hubei Tianxian Cemetery at a total consideration of RMB40,000,000. The acquisition has been completed in January 2019 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB13,560,000. Hubei Tianxian Cemetery is engaged in burial service and was acquired as part of the Group’s expansion.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 25. ACQUISITION OF A SUBSIDIARY – *continued*

### Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”) – *continued*

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

	<b>RMB'000</b>
Property and equipment	2,728
Cemetery assets	31,035
Inventories	2,246
Bank balances and cash	153
Trade and other payables	(152)
Contract liabilities	(1,635)
Deferred tax liabilities	(1,325)
	<hr/>
Net assets acquired	33,050
Non-controlling interest	(6,610)
Goodwill	13,560
	<hr/>
Consideration transferred	40,000
	<hr/> <hr/>
Satisfied by:	
Consideration payable	10,000
Cash paid in the six months ended June 30, 2019	30,000
	<hr/>
Cash consideration	40,000
	<hr/> <hr/>
Consideration paid in cash	30,000
Less: bank balances and cash acquired	153
	<hr/>
Net cash outflow arising on acquisition	29,847
	<hr/> <hr/>

Goodwill arose in the acquisition of Hubei Tianxian Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Hubei Tianxian 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 loss of approximately RMB1,059,000 which is attributable to Hubei Tianxian Cemetery.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 25. ACQUISITION OF A SUBSIDIARY – *continued*

### Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”) – *continued*

Had the acquisition been completed on January 1, 2019, total group revenue for the Period would have been RMB911,724,000 and profit for the Period would have been RMB381,973,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2019, nor is it intended to be a projection of future results.

In determining the ‘pro-forma’ revenue and profit of the Group had Hubei Tianxian Cemetery been acquired at the beginning of the current period, the Directors have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group’s financial assets that are measured at fair value on a recurring basis

Some of the Group’s financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	June 30, 2019 (unaudited)	December 31, 2018 (audited)		
Financial assets at fair value through profit or loss	Cash management products in PRC with principal of RMB442,675,000	Cash management products in PRC with principal of RMB577,420,000	Level 3	Discounted cash flows  Key unobservable input is:  (1) Expected return;  (2) Risk-adjusted discount rate (Note)
Unquoted equity investments	10% equity investment in Huaxia Cemetery of RMB29,761,000	10% equity investment in Huaxia Cemetery of RMB29,761,000	Level 3	Income approach  Key unobservable input is:  (1) Long term revenue growth rates, taking into management's experience and knowledge of market conditions of the specific industry;  (2) Weighted average cost of capital

Note: The Directors consider that the impact of the fluctuation in expected return and discount rate of the cash management products was insignificant as the cash management products have short maturities, and therefore no sensitivity analysis is presented.

There is no transfer among level 1, 2 and 3 during the period.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Reconciliation of Level 3 fair value measurements of financial assets

	<b>Financial assets at FVTPL RMB'000</b>
At January 1, 2019	607,181
Purchase	156,465
Settlement	<u>(291,210)</u>
At June 30, 2019	<u><u>472,436</u></u>

The Directors consider that the carrying amounts of financial assets recognised in the condensed consolidated financial statements approximate their fair values.

## 27. CONTINGENCIES AND COMMITMENTS

### (a) Capital and other commitments

	<b>June 30, 2019 RMB'000 (Unaudited)</b>	December 31, 2018 RMB'000 (Audited)
Acquisition of property & equipment and cemetery assets:		
– contracted for but not provided in the condensed consolidated financial statements	<u><u>91,087</u></u>	<u><u>104,228</u></u>
Acquisition of subsidiaries and non-controlling interests:		
– contracted for but not provided in the condensed consolidated financial statements	<u><u>15,900</u></u>	<u><u>40,000</u></u>

### (b) 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 100% equity, 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

## 27. CONTINGENCIES AND COMMITMENTS – *continued*

### (b) Contingent liabilities – *continued*

As of the date of these condensed consolidated financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the “Proceedings”) of which 8 were either settled, subsequently withdrawn or concluded by the Province People’s Courts resulting a RMB2.3 million net settlement paid by the Group.

The total claims on the remaining 4 Proceedings (the “Remaining Proceedings”), where appropriate, including the interest accrued up to the date of these condensed consolidated financial statements, amounting to RMB57 million and the status of which are disclosed as follows:

- 3 claims over RMB50 million awarded in favor of the plaintiffs in the second-instance of the Province People’s Courts;
- 1 claim over RMB7 million involved in the legal proceeding and currently pending at the Province High People’s Court;

Within these four lawsuits, the first three cases above where the judgement from the People’s court was awarded against Wuyuan Wanshoushan Cemetery, while the last one case was awarded for Wuyuan Wanshoushan Cemetery in the second-instance of the People’s court. However, the public security department had filed investigation for suspected crimes on the relevant personnel involved in the lawsuits.

Based on the expert advices of the independent PRC legal counsel, the Directors are of the view that if the suspected crime is confirmed, Wuyuan Wanshoushan Cemetery will be exempted from the potential guarantee liability.

As of the date of these condensed consolidated financial statements, after taking into account of the legal opinions by independent PRC legal counsels 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 AND GLOSSARY

“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
“ASP”	average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“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 Annual Report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Chongqing FSY Group”	Chongqing Fu Shou Yuan Group Co., Ltd.* (重慶福壽園集團有限公司), formerly known as Chongqing Fu Shou Yuan Industrial Co., Ltd.* (重慶福壽園實業有限公司), a company established in the PRC on January 18, 2011. It is an indirect wholly-owned subsidiary of the Company
“Company”, “our 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 on January 5, 2012
“Compliance Committee”	the compliance committee of the Company
“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



## DEFINITIONS AND GLOSSARY

“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 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 owned subsidiary of the Company
“Grand Fire”	Grand Fire Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Mr. Lu Hesheng (陸鶴生), the non-executive Director
“Group”, “our Group”, “us”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Guangxi Huazuyuan Cemetery”	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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

# DEFINITIONS AND GLOSSARY

“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hubei Tianxian Cemetery”	a cemetery in Wuhan of Hubei Province, a limited company established under the laws of the PRC and became a subsidiary of the Company since January 2019
“Linxin”	Shanghai Linxin Asset Management Co., Ltd. (上海臨信資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“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
“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
“Peaceful Field”	Peaceful Field Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Mr. Wang Jisheng, an executive Director
“Perfect Score”	Perfect Score Group Limited, a limited liability company incorporated in BVI on June 18, 2015, one of the Company’s Shareholders and a direct wholly-owned subsidiary of Zhongfu
“Period”	the six months ended June 30, 2019
“RMB”	Renminbi yuan, the lawful currency of the PRC



## DEFINITIONS AND GLOSSARY

“same period of last year”	the six months ended June 30, 2018
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“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” or “SEHK”	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
“Wish and Catch”	Wish and Catch Limited, a limited liability company incorporated in BVI on June 28, 2013, wholly-owned by Mr. Bai Xiaojiang, the chairman and one of the executive Directors

## DEFINITIONS AND GLOSSARY

“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
“Yongying”	Yongying Asset Management Co., Ltd.* (永贏資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會), the investment made by Yongying in the Limited Partnership for and on behalf of Yongying Asset – Yonghui Phase II special Asset Management Plan (永贏資產 – 甬匯二期專項資產管理計劃)
“Zhongfu”	China Zhongfu Industrial Group Limited* (中國中福實業集團有限公司), 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.