



福壽園國際集團

FU SHOU YUAN INTERNATIONAL GROUP
01448.HK

2020

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. Liang Yanjun

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. Liang Yanjun (*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

Ocorian 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

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu

STOCK CODE

1448

WEBSITE

www.fsygroup.com

CHAIRMAN'S STATEMENT

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, 2020.

In the first half of 2020, the world faced serious challenges, with COVID-19 continuously applying pressure to the global economic activities and the economic activities of various countries shrinking sharply. The trade suffered pressure with the international commodity prices falling, while the economic development suffered tremendous shock. In order to cope with the impact of coronavirus outbreak on the society and the economy, counter-cyclical adjustment and regulation had been strengthened in China to boost the investments and consumption of real economy and hedge against the downward economic pressure. With the gradual control of the coronavirus outbreak in China, various industries resumed production and work, and the economy of China saw significant improvement as the market picked up by degrees.

In fighting against the coronavirus outbreak, Fu Shou Yuan insisted on serving society and people's livelihood and launched online tomb-sweeping service timely, preventing the deceased from being neglected in special days amid the quarantine measures. All staff of the Group worked together and dedicated themselves to their posts and charitable undertakings, doing their very best for the control and prevention of coronavirus outbreak and navigating through the adversities with the society and the people.

Facing the external environment full of uncertainties, the development of the Group remained stable in the first half of 2020, during which, the Group recorded total revenue of RMB733.9 million. Net profit was RMB307.4 million, of which profit and total comprehensive income attributable to the owners of the Company was RMB247.5 million. The Board declared an interim dividend of HK\$3.28 cents per Share for 2020 to the Shareholders in appreciation of their support.

"Filial piety" is a traditional culture and virtue of China. The culture of filial piety and respect for the elderly has become an important foundation for promoting the development of the death care service industry. With the increase in aging population, the improvement in living standards in China and the accelerating urbanization, the demand and requirement for death care services has been increasing sharply, implying vast opportunities for the country to comfortably grow into a globally leading death care service market where the Group was well established.

Since its establishment, Fu Shou Yuan always adheres to the original intention of "running a good enterprise and changing the entire industry". It actively develops its core business and continuously enhances the quality of services. At present, the Group has established its presence across burial services, funeral services, equipment and supplies, pre-need services, landscape design, "Death Care + Internet" and life education. The Group's business has been expanded to more than 30 cities in 16 provinces, autonomous regions and municipalities in China including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Jilin, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia and Hubei.

In the first half of 2020, the Group continued to optimize the national strategic layout, developed the internet business to spearhead the industrial development, and committed more resources to livelihood, cultural heritage and ecological progress. During the Period, the Group adapted to the current trend and launched the online tomb-sweeping service "Fu Shou Cloud" in the burial units and funeral service institutions within the Group in more than 30 cities. Such online tomb-sweeping service connects the online space and the offline environment, so that the customers can be on the scene without leaving home, and they can even issue instructions remotely through the mobile phone, thereby breaking the time boundary and geographical restrictions for tomb-sweeping activities. In

CHAIRMAN'S STATEMENT

In addition, the pre-need contracts continued to be the important strategic pivots of the Group, satisfy the pre-need of customers to make their own funeral arrangement and bringing about a stable source of customers for the Group. Pre-need services are being recognized, supported and increasingly sought after by governments of various levels and elderly service centres. The Group continued to optimize its product mix, increasing the proportion of land-saving products and artistic cemeteries against traditional cemeteries, so as to improve land utilization and greenery. Landscape design for cemeteries and funeral facilities is forming an independent segment, and has functioned to synergize the Group's business arms and sharpen its competitiveness.

The Group treats fulfilling the demand for "making people pass away respectfully with relief and dignity" as its own responsibility. Over the years, Fu Shou Yuan explored with local governments on the ways to develop the modern death care business, including various cooperation modes such as joint venture cooperation, participation in the restructuring of state-owned funerals, BOT (Build-Operate-Transfer), outsourcing government services or construction by the public sector and operation by the private sector. Fu Shou Yuan modified or built death care service facilities in cities and counties within provinces (autonomous regions and municipalities) such as Shanghai, Chongqing, Anhui, Shandong, Fujian, Jiangxi, Jiangsu and Zhejiang. It also adopted the form of government purchases to conduct custody operation. Fu Shou Yuan actively participated in renewal projects for obsolete urban death care facilities, promoted the concept of environmental-friendly cremation and standardized death care services, and assisted in solving problems such as the inadequacy of death care facilities, the relocation and modification of old graves during urbanization, the optimization of death care services system. Meanwhile, through the construction of death care facilities of higher standards and innovative services, Fu Shou Yuan promoted a new style of civilized funeral and burial, providing better services for the people.

Fu Shou Yuan focuses on services with high quality and value-added, continuously innovates its service values, improve the entire chain of high-standard service systems, and gradually forms a model of blockchain expansion. In April, the Group and Aeon Life Insurance Company, Ltd. reached strategic cooperation where both parties will commence the "Insurance + Life Care" business together and jointly launch the "Green Life Services", providing comprehensive, transparent, standardized and premium one-stop pre-need and funeral services to consumers. This was an important measure of cross-border innovation in the insurance and death care service industries. In June, the Group signed a contract for the acquisition of Jinsha Fuze Funeral and Burial Project (貴州畢節市金沙縣福澤殯葬項目) in Guizhou Province Bijie City, which was an important step for the Group to expand its presence in Guizhou Province and would further enhance the integrated service capability of the Group in Guizhou.

During the Period, the Group received recognition and support from major financial institutions. In April, the Group and China Construction Bank, Shanghai Branch reached strategic cooperation, pursuant to which, China Construction Bank, Shanghai Branch granted an intentional credit line of RMB5 billion to the Group. Through such comprehensive cooperation with China Construction Bank, the Group will enhance its expansion efforts to speed up its own development. In June, the Group and Shanghai Rural Commercial Bank Co., Ltd. concluded a comprehensive strategic cooperation agreement, pursuant to which, Shanghai Rural Commercial Bank Co., Ltd. will provide intentional borrowing facilities equivalent to RMB5 billion to the Group and its affiliated companies as well as cash management, supply chain financing and investment banking to support Fu Shou Yuan in building itself into an international death care service enterprise.

CHAIRMAN'S STATEMENT

Fu Shou Yuan has been always paying attention to people's livelihood, actively participating in social welfare activities, fulfilling the social responsibility and contributing to poverty alleviation. Since the epidemic prevention and control measures kicked off, the demand for anti-epidemic materials such as disinfectants and protective equipment has surged across the country. Shanghai Fu Shou Yuan Public Welfare Development Foundation was highly concerned about the epidemic prevention and control work. It quickly responded and donated anti-epidemic materials to funeral units and social welfare institutions in Shanghai, Wuhan and Tianmen, supporting the epidemic prevention and control work and the front-line medical staff. The Group's branches and subsidiaries in various regions actively carried on the community volunteer services and caring visits to local welfare institutions, and donated materials to organizations and groups in need. Fu Shou Yuan also jointly launched online "Grief Counseling Practical Courses in Epidemic Relief" with relevant institutions to take care of mental needs of the patients of COVID-19 and their families as well as the people under the threat of the epidemic. In June 2020, with its devotion in the life education undertaking and the delivery and promotion of the right sense of life and death to the public over the years, the Group was awarded as one of the Top 10 Charity Projects of the Year in the China Charity Ranking 2020 for its "Non-profit Public Awareness Program of Life Education (Thanatological Education)", which was a full recognition and high compliment of Fu Shou Yuan's active promotion of public life education in recent years.

The Group actively assumed its responsibility on the assurance of people's livelihood, covering various fields including cultural education, charitable donation, pre-need care, ecological and environmental protection. The Group's contribution has been fully affirmed and recognized by all sectors of society. Over the years, the Group was awarded multiple awards, including the China Charity Award, the "Public Welfare Honor" from the Community Chest of Hong Kong, "Green Model Award" from the China Charity Festival, "Contribution to Sustainable Development Award" from the Social Responsibility Conference, Shanghai Public Welfare Selection Top 10 Charity Partner Enterprise and "Most Socially Responsible Listed Company" in the 2019 Jin Gang Gu (金港股) Award. In addition, the Group is committed to promoting community welfare development. In March 2020, the Group initiated a charity plan for the distribution of "Fuyuan Safety Protection Package", providing voluntary caring services about spiritual comfort, sadness counselling and pre-need planning to the elderly in difficulty in the local communities during and after the epidemic. In April 2020, Ms. Yi Hua, Director of the Culture and Education Committee of Fu Shou Yuan International Group and Dean of China Fu Shou Yuan Life Service Academy, was awarded the "Outstanding Individual" of the 11th China Talent Development Awards. In May 2020, the Group was awarded the "2019 Outstanding Contribution Award from Shanghai Services Federation".

The Group upholds to the philosophy of "human-oriented and culture rooted" to build a caring and warm life service system for the society, and strives to promote the outstanding Chinese traditional culture and lead the development and form of the modern death care industry in China. Looking forward, Fu Shou Yuan will continue to do its best in the death care industry in China. By striving for expansion and innovation in its services, Fu Shou Yuan will expand the industrial chain layout of the life service industry, and devote unremitting efforts in serving the public for a better tomorrow and positioning ourselves to deliver better returns to our 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 living up to, 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, 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. Relevant high ranking officials of the death care administration department under the Ministry of Civil Affairs of the PRC have brought up this reform concept in their speeches during various important sessions, as well as published a thesis titled “Certain Suggestions on The Prominent Problems in and the Deepening Reforms of the Death Care Services” (《殯葬領域突出問題與深化改革的若干建議》) in the “Social Governance Review” journal, which has received extensive attention. The article guaranteed favorable opportunities to the industry and its market in various respects, including: encouraging the development of a top-level design conducive to service providers which incorporates the concept of “making people pass away respectfully” into the proposal, elevating the Party’s leadership towards death care services to a new level; suggesting enhancement of the cooperation with social capital, so as to promote service quality through competition; regarding the basic services that state-owned corporations could hardly provide, it suggested promoting the collaboration between private and state-owned corporations as a possible solution; the article also proposed to incorporate the development of cemetery facilities into the National Spatial Planning. All the abovementioned considerations and initiatives will be conducive to the Group’s further development as a leading corporation in the entire industry chain of death care services.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS COMMENTARY

During the Period, despite the occurrence of a worldwide public health emergency, after ensuring the safety for our employees and customers, the Group, as always, continued to consolidate and explore our brand value, put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improve service quality, and offer innovative services and products, pushing forward with optimization of resource allocation. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain widespread recognition from our customers.

During the Period, the Group was committed to informatization construction and the launch of a new integrated “Death Care + Internet” online system, namely “Fu Shou Cloud”. In response to the COVID-19, the Group launched “Fu Shou Cloud” online tomb-sweeping services in cemeteries and funeral service institutions in over 30 cities spanning over 16 provinces, autonomies and municipalities across the country. It bypassed the restriction of time and space by connecting online space and offline scenarios and services, thereby providing an immersive experience to customers staying at home. Remote commands also allowed customers to express their longing to their family through instant and on-site demonstration of tomb-sweeping activities. In addition, channels and products, such as VR tomb-viewing, online mall, valet keeping vigil, cremains memorial, online obituary, went through regular innovation to achieve an online-to-offline, comprehensive and continuous connection between Fu Shou Yuan and customers to enhance consumption experience.

During the Period, the Group continued to implement structural optimization of resource allocation. We continued to enhance overall budget management and internal control to boost the efficiency of resource utilization. We worked relentlessly on the development of procedure standardization and operation informatization, focusing on operating efficiency and reducing costs in operations. The self-developed cemetery business system and funeral business system of the Group had achieved full business coverage. The integration of big data aided the Group in further implementation of business standardization and management refinement to fortify its leading position in the industry and lay down a solid foundation for the sustainable and rapid development of the Group.

During the Period, as an important strategic pivot of the Group, pre-need services contracts continued to record stable growth. 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 child birth, 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 governments of various levels and elderly service centres. As at June 30, 2020, the Group has been offering pre-need services contracts for funeral services in 21 cities of 12 provisional regions. We signed a total of 2,579 pre-need services contracts during the Period, representing an increase of 78% as compared to the same period of last year (the same period of last year: 1,449 pre-need services contracts). 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. In April 2020, the Group and Aeon Life Insurance Company Ltd. agreed to a strategic cooperation to further deepen the comprehensive cooperation and exchange, boost innovation capability and achieve a new leap in strategic development. Both parties will work together in the commencement of “Insurance + Life Care” business to jointly launch “green life service”, an insurance contracted product, with the aim of providing extensive, transparent, standardized and quality one-stop services to various consumers to satisfy their demands under different scenarios.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to push for the continuous marketing and sales of environmental-friendly cremation machines. During the Period, the Group achieved a significant breakthrough in terms of government procurement, with contracted sales of 10 sets of cremation machines. As at June 30, 2020, the Group had 22 sets of cremation machines contracted but not yet delivered. We expect that the cremation machine business will bring about considerable contribution to the Group's revenue in the future.

During the Period, the Group continued to expand its business presence. In June 2020, the Group entered into a contract in regard to the acquisition of the Fuze Funeral and Burial project (福澤殯葬項目) located in Jinsha County of Bijie City, Guizhou Province. Such contract is the Group's latest integrated cemetery project in Guizhou Province collaborated with another party, which deepened our presence as well as further enhanced our comprehensive service capability in said province. Concurrently, the Group is under process to acquire or collaborate in various target companies and projects, whereby breakthrough is expected in the second half of 2020 at the earliest. Among which, the Group has entered into a contract in July 2020 to acquire the entire equity interest in Harbin Mingxiyuan Cemetery Co., Ltd. (哈爾濱明西園公墓有限責任公司) located in Harbin City of Heilongjiang Province. The acquisition has been completed and the Group is able to, for the first time, establish its foothold in Heilongjiang Province. Such contracted project provides the Group a strong position in terms of market services with extensive geographical advantage, allowing us to accelerate our plan to deepen our presence in major provinces and province capitals, which will in turns create synergy effect and radiation of services. In addition, the construction of our cemetery project in Xuancheng City, Anhui Province was put into operation in February 2020. Such project is adjacent to our local funeral parlor project, with the collaboration between the two, an integrated funeral service will be provided to our customers; our cemetery project in Qinzhou City, Guangxi Province was put into operation in May 2020; the Zheng'an funeral parlor (正安殯儀館) located in Guizhou Province was officially opened and put into operation in June 2020; and the funeral service center in Gaoyou City of Jiangsu Province has also commenced operation in July 2020. We continued to accelerate renovation and upgrade works of acquired or escrowed funeral facilities, which may further show effects of synergies. Meanwhile, we consistently pushed for the implementation, development and operation of newly established projects, including: construction and operation of a funeral parlour under the "BOT" mode in Linquan County, Fuyang City, co-financing the construction of a cemetery with the local governments in Qihe County, Shandong Province and Ganzhou City, Jiangxi Province, respectively, and cooperation in respect of a funeral parlour and cemetery in Tai'an City, Shandong Province.

Employees are our most valuable resource. After years of development, the Group established an internal professional team with clear segmentation, along with that realized a healthy structure and benign development mechanism for our talents. During the outbreak of COVID-19, the Group fought the virus through concerted effort. The Group has been closely monitoring the health of the staff to ensure zero case of infection. The management of the Group promptly issued the "Letter to Staff Members of Fu Shou Yuan" to express gratitude to and raise the morale of all dedicated staff members. Meanwhile, through the coordination of the Group's Communist Party, labor union and Chinese Communist Youth League, our Party (League) members responded to the call to actively relieve the difficulty and complicated situation of the frontline and offer help to the public and customer service. All staff members reacted positively to the request of the government and the Group to resume the operation and production. In order to minimize the impact of the COVID-19 on our business, all staff members and the Group shared the same mission of implementing various measures effectively to reduce costs and boost efficiency, thereby achieving outstanding results.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will uphold our “people-oriented and culture-rooted” philosophy, providing livelihood services, responding to the calling of family empathy, inheriting outstanding traditional culture, leading life education, keeping the memory of cities, and bearing social responsibilities. The Group has been consistently investing in charitable undertakings, we have, for more than 20 years, offered public welfare pre-need services contracts to low-income groups as an assistance to the government, provided free burial services to widowed elders, established monument for organ donors, established scholarships in funeral vocational schools, provided financial aid to organizations for cancer rehabilitation patients, organized life education activities for the public, established museum to promote outstanding traditional culture, and supported various patriotic education activities. The Group’s charitable endeavors were well received by all sectors of society. Since the outbreak of the COVID-19, the Group has carried out a number of charitable activities, including financial and material aids, in different regions, among which we procured special funeral and anti-epidemic materials from abroad to support the funeral industry in Wuhan.

Despite the unforeseen impact from the COVID-19, each business segment of the Group demonstrated strong recoverability and profit resilience. Due to the COVID-19 influence, revenue of the Group recorded a year-on-year decrease for the first quarter and recovered to an increase for the second quarter; in particular, as the COVID-19 was brought under control in May, the delayed market demand was gradually released, leading to a fast and continuous rebound in terms of operating data and financial performance in May and June. In view of the above, during the Period, total revenue of the Group amounted to RMB733.9 million, representing a decrease of 19.5% over the same period of last year. Profit and other comprehensive income attributable to the owners of the Company amounted to RMB247.5 million, representing a decrease of 16.6% when compared to that of last year, while net profit margin remained consistent with the same period of last year at 41.9%.

REVENUE

During the Period, our revenue decreased by RMB177.8 million or 19.5% to RMB733.9 million from RMB911.7 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, 2020		June 30, 2019	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Burial services	618,830	84.3%	772,288	84.7%
Funeral services	102,146	13.9%	128,256	14.1%
Other services	16,354	2.2%	16,085	1.7%
Inter-segment elimination	<u>(3,451)</u>	<u>(0.4%)</u>	<u>(4,905)</u>	<u>(0.5%)</u>
Total	<u>733,879</u>	<u>100.0%</u>	<u>911,724</u>	<u>100.0%</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2020		June 30, 2019	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plots services				
Ordinary business plots	5,427	556,962	6,914	701,642
Public welfare plots and tomb relocation	948	1,797	1,766	6,807
	<u>6,375</u>	<u>558,759</u>	<u>8,680</u>	<u>708,449</u>
Other burial services		<u>60,071</u>		<u>63,839</u>
Total revenue from burial services	<u>6,375</u>	<u>618,830</u>	<u>8,680</u>	<u>772,288</u>

During the Period, revenue from sale of burial plots services for ordinary business purpose decreased by RMB144.7 million or 20.6% as compared to the same period of last year, in which sales volume decreased by 1,487 or 21.5%, while ASP has slightly increased by 1.1%. During the Period, due to the delay of demand for sale of burial plots services caused by the COVID-19, service income experienced a temporary decrease.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of revenue from sale of 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, 2020		June 30, 2019	
	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*	5,260	549,966	6,907	701,525
Cemeteries related to acquisitions/new construction	167	6,996	7	117
Total revenue from sale of burial plots services for ordinary business purpose	5,427	556,962	6,914	701,642

* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2019 to June 30, 2020.

During the Period, revenue from sale of burial plots services for ordinary business purpose in comparable cemeteries decreased by RMB151.6 million or 21.6% as compared to the corresponding period of the previous year. Such movement was mainly attributable to the deferred demands for burial plots purchases as affected by the COVID-19, which caused the sales volume to decrease by 1,647. Revenue from sale of burial plots services for ordinary business purpose in newly acquired or developed cemeteries increased by RMB6.9 million. The ASP of burial plots sold for ordinary business purpose in the new cemeteries was lower than that of comparable cemeteries, as the cemeteries are located at different regions and 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, 2020		June 30, 2019	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	16,535	96,066	21,713	128,065
Facilities related to new acquisitions/new construction	<u>2,145</u>	<u>6,080</u>	<u>46</u>	<u>191</u>
Total revenue from funeral services	<u><u>18,680</u></u>	<u><u>102,146</u></u>	<u><u>21,759</u></u>	<u><u>128,256</u></u>

* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2019 to June 30, 2020.

During the Period, revenue from funeral services decreased by RMB26.1 million or 20.4%. In particular, the volume of funeral services decreased by 3,079 households or 14.2%, while ASP decreased by approximately RMB400 or 7.2%. During the Period, due to reduced gathering activities as required by the government under the COVID-19, revenue from comparable funeral facilities and services decreased by RMB32 million or 25%, of which the volume of services decreased by 5,178 households or 23.8%, while ASP slightly decreased as compared to the previous year. Value-added services were constrained under the COVID-19, and the ASP of these new funeral facilities was lower than that of the comparable funeral facilities, as most of the newly operated funeral facilities only offered basic services to their customers before our operation, therefore, a decrease in ASP was recorded. After the COVID-19 was brought under control, with the resumption of provision of such value-added services, 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 revenue from burial services and funeral services by region during the Period:

	Six Months Ended			
	June 30, 2020		June 30, 2019	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Shanghai	347,433	48.2%	442,944	49.2%
Henan	42,833	5.9%	56,778	6.3%
Chongqing	34,052	4.7%	34,894	3.9%
Anhui	67,473	9.4%	94,341	10.5%
Shandong	40,363	5.6%	40,286	4.5%
Liaoning	66,969	9.3%	95,497	10.6%
Jiangxi	34,328	4.8%	39,477	4.4%
Fujian	14,992	2.1%	24,344	2.7%
Zhejiang	16,381	2.3%	14,982	1.6%
Jiangsu	36,198	5.0%	34,098	3.8%
Guangxi	5,844	0.8%	8,177	0.9%
Inner Mongolia	6,426	0.9%	6,547	0.7%
Guizhou	7,330	1.0%	8,062	0.9%
Hubei	354	0.0%	117	0.0%
Total	720,976	100.0%	900,544	100.0%

During the Period, revenue from each of the remaining regions, excluding Shandong, Hubei, Zhejiang and Jiangsu, has recorded different levels of decrease as affected by the COVID-19. Revenue from cemeteries and funeral services in relevant regions will recover over time and under effective control of the COVID-19.

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, and revenue from the sale of cremation machines.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 51.4% of our total revenue for the Period (the same period of last year: 49.5%), decreased by RMB73.9 million or 16.4%. Due to the COVID-19 outbreak, the demand for cemeteries and funeral services in the market experienced temporary decrease. During the Period, the Group has commenced further structural adjustment on resources with an emphasis on the continuous optimization of cost structure and the effort in cost reduction and efficiency enhancement which resulted in a decrease in operating expenditure. However, due to fixed cost (such as depreciation and amortization) incurrence, the decrease in operating expenditure was lower than that of the revenue.

The Group's staff costs include staff salaries, bonuses, benefits and amortization of share option cost. During the Period, the staff costs decreased by RMB37.0 million or 19.5%. Such decrease was mainly attributable to the combined effect of various social security concessions granted to the Group and optimization of working structure and remuneration structure of staff during the COVID-19 outbreak.

The construction costs represent our expenditures in building burial plot products (excluding stone materials). During the Period, the construction costs decreased by RMB6.0 million or 20.8%, mainly due to the consistent optimization in cost structure.

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 decreased by approximately RMB18.8 million or 26.8%, which is mainly due to the decrease in business volume and the realization of the effort in cost reduction and efficiency enhancement.

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 RMB7.2 million or 32.1%. Such decrease was mainly attributable to the decrease in business activities of the market as a result of the outbreak of COVID-19, as well as the decrease in sales commission due to lower income. In addition, we have been optimizing the sales channels in various regions as well as enhancing the development of our direct sales teams, so as to provide better quality services to our customers in a more systemic manner.

During the Period, depreciation and amortization increased by RMB4.4 million or 7.4%, which is mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from the second half of last year.

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 decreased by RMB104.0 million or 22.6% 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, 2020		June 30, 2019	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	358,777	58.0%	443,494	57.4%
Funeral services	10,127	9.9%	18,543	14.5%
Other services	(13,589)	(83.1%)	(1,568)	(9.7%)
Inter-segment elimination	1,480	(42.9%)	308	(6.3%)
Total	356,795	48.6%	460,777	50.5%

During the Period, the operating profit margin of burial services increased to 58.0% from 57.4% for the same period of last year mainly because of higher average selling prices of burial plots and effective cost control.

During the Period, funeral services have been affected by the COVID-19 outbreak and products and services with high added value have been restricted. As a result, the content of services has turned to fundamental services such as cremation, which led to a decrease in funeral services and hence a decrease in the operating profit margin of funeral services segment from 14.5% for the same period of last year to 9.9%. After the gradual control of the COVID-19, the average unit service price, service volume and profitability of the funeral facilities will gradually rebound in the future.

During the Period, other services segment recorded an operating loss of RMB13.6 million, which was mainly due to the operating costs incurred for cremation machines during the trial sale period and the development and investment of Fu Shou Cloud business. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening of the rules and regulations on environmental protection by the government. Fu Shou Cloud will also be an important direction of the future development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE COSTS

Finance costs for the Period consisted of interest expenses of RMB2.0 million on bank loans (the same period of last year: RMB2.5 million), interest expenses of RMB1.1million (the same period of last year: RMB1.5 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities of RMB1.5 million (the same period of last year: RMB1.5 million).

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 land acquisition and cemetery development 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. Among which, interest income and gains from unlisted cash management products during the Period amounted to RMB25.6 million, representing an increase of RMB1.3 million or 5.4% as compared to the same period of last year, which is mainly due to strengthened capital centralized management and systematic bargain of wealth management income.

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 corporate income tax rate for the Period was 20.7% (the same period of last year: 22.1%). The difference between the standard tax rate of 25% and the effective tax rate of 20.7% 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 government 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 RMB80.4 million, representing a decrease of RMB28.0 million or 25.8% compared to the same period of last year, mainly as a result of the decrease in taxable income caused by the decline in revenue.

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 RMB247.5 million, representing a decrease of RMB49.4 million, or 16.6% compared to the same period of last year. This change was primarily due to the decrease in revenue as a result of the COVID-19 outbreak.

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, 2020 (RMB'000)	June 30, 2019 (RMB'000)
Net cash generated from (used in)		
— operating activities	312,876*	354,542*
— investing activities	(529,890)*	(102,315)*
— financing activities	(347,762)	(131,600)
Total	(564,776)	120,627

* A classification made by the management does not comply with International Financial Reporting Standards, however, the management considers that this classification can better reflect the nature of the Group's business and can make the information disclosed more comparable. The net cash generated from operating activities disclosed in the unaudited financial statements amounted to RMB312.9 million (the same period of last year: RMB304.0 million) and the net cash used in investing activities as disclosed in the unaudited financial statements amounted to RMB529.9 million (the same period of last year: RMB51.8 million). During the Period, an amount of nil (the same period of last year: RMB50.6 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.

We generated 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 RMB312.9 million for the Period, representing a decrease of RMB41.6 million or 11.8% as compared to the same period of last year. It was primarily due to the decrease in revenue as affected by the outbreak of COVID-19.

During the Period, the net cash used in investing activities amounted to RMB529.9 million. It was primarily due to: (i) payment of RMB39.2 million to acquire subsidiaries, operation rights of cemetery and funeral parlour and other investments; (ii) 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, Tianmen City of Hubei Province, Nanchang City and Yanshan County of Shangrao City in Jiangxi Province and Yancheng City and Gaoyou City in Jiangsu Province, and capital expenditures for upgrades and maintenance in other cemeteries and funeral facilities, and construction expenditure of the operating system in total of RMB79.6 million; and (iii) net investment for time deposits and other financial assets of RMB438.8 million, which were partly offset by the interests and gains from unlisted cash management products received of RMB29.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Our net cash used in financing activities amounted to RMB347.8 million for the Period. It was primarily due to: (i) final dividends for 2019 paid to shareholders of the Company of RMB89.0 million; (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB103.0 million; (iii) interest payment of RMB2.9 million in connection with borrowings; (iv) repayment of loans to non-controlling shareholders of RMB3.0 million and repayment of bank loans of RMB40.0 million; (v) payment of RMB135.2 million for acquisition of non-controlling interests in some non-wholly owned subsidiaries; (vi) purchase of shares of the Company by scheme trustee under the Restricted Share Incentive Scheme, which resulted in net cash outflow of RMB188.7 million after taking into account of the dividend received; and (vii) payment for lease liability of RMB10.7 million. These cash outflows were partially offset by: (i) the proceeds of RMB167.9 million received upon exercise of share options; (ii) the net capital contribution from the non-controlling shareholders of certain of our non-wholly owned subsidiaries totalled at RMB7.1 million; and (iii) bank loans of RMB50.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2020, we had bank balances and cash of RMB1,442.4 million (December 31, 2019: RMB2,007.1 million), time deposits of RMB225.5 million (December 31, 2019: RMB8.5 million) and financial assets of RMB639.3 million (December 31, 2019: RMB417.6 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 1.4% to 3.8%. 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. The Board confirmed that the transactions in financial assets for the Period, on a standalone basis or aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

We had outstanding bank borrowings of RMB46.4 million as at June 30, 2020. Of this outstanding balance, RMB40.0 million is repayable within one year and RMB6.4 million is repayable within two years. These borrowings were dominated in RMB and the bank borrowings secured by the Group's equity interest in a subsidiary carried interest at 4.998% per annum from January 1, 2020 to March 10, 2020 and 4.35% per annum from March 11, 2020 to June 30, 2020, while the bank borrowings unsecured carried interest at 4.35% per annum from January 20, 2020 to March 29, 2020 and 3.90% per annum from March 30, 2020 to June 30, 2020. As at June 30, 2020, three non-wholly owned subsidiaries of the Group had total loans of RMB47.1 million due to their non-controlling shareholders.

In addition, we had RMB20.35 billion of comprehensive bank credit line as at June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as at June 30, 2020 was 2.0% (December 31, 2019: 1.9%). 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.

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, 2020, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 96.7%, 1.8% and 1.5%, 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

We signed a contract in June 2020 to acquire 80% equity interests in Jinsha Fuze Funeral and Burial Project in Guizhou Province. According to the contract, we shall make total capital injection of RMB49 million in Jinsha Fuze Funeral and Burial Project by two batches and pay cash consideration of RMB83 million to the independent third party.

Save as disclosed above, there was no other material acquisitions or disposals of subsidiaries and affiliated companies of the Group during the Period.

EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2020, we had 2,217 full-time employees (December 31, 2019: 2,349 full-time employees). 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.

We have adopted the Restricted Share Incentive Scheme on November 29, 2019. For details, please refer to the section headed “RESTRICTED SHARE INCENTIVE SCHEME” of “OTHER INFORMATION” in this interim report.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB59.5 million as at June 30, 2020. We also planned to provide approximately RMB115.8 million for the construction of new cemeteries and funeral facilities in Ganzhou City, Linquan City, Qihe County of Shandong Province and Fuyang City.

We expect our capital expenditure in the second half of 2020 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.

ASSETS PLEDGED

As at June 30, 2020, we pledged 80% equity interests in Changzhou Qifengshan Cemetery to secure the bank borrowing 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 2.29 million sq.m. as at June 30, 2020 (December 31, 2019: approximately 2.30 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 indirect wholly-owned 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 2019, with three outstanding lawsuits remaining. There has been no notifiable progress on these three 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 three lawsuits was approximately RMB54.6 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, 2020, after taking into account of the legal opinion and the current status of the proceedings and investigation, the Directors were of the view that it was not probable the proceedings would in the end result in a material adverse impact on the financial position and business operation of the Group 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

We signed a contract in July 2020 to acquire 100% equity interests in Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司), which is principally engaged in provision of cemetery services in Harbin of Heilongjiang Province, for a consideration of RMB450 million. For further details, please refer to our announcement dated July 31, 2020. As at the date of this interim report, this acquisition has been completed.

Save as disclosed above, there was no other significant event that might affect the Group subsequent to the Period.

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 established strategic objectives, 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 with the internet to improve service contents and accessibility. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business 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, 2020, 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	4.22%
	Beneficial owner	Long position	10,453,452	0.46%
Mr. Wang Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.22%
	Beneficial owner	Long position	10,453,452	0.46%
Mr. Tan Leon Li-an	Beneficial owner	Long position	900,000	0.04%
Mr. Lu Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.20%
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 4.22% 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 4.22% 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 1.20% 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, 2020, 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, 2020:

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options outstanding as at January 1, 2020	Options	Options	Options	Options	Options outstanding as at June 30, 2020	Exercisable period
					Granted during the six months ended June 30, 2020	exercised during the six months ended June 30, 2020	lapsed during the six months ended June 30, 2020	cancelled during the six months ended June 30, 2020		
<i>Directors</i>										
Bai Xiaojiang	March 20, 2017	4.850	4.82	5,000,000	—	2,000,000 ¹	—	—	3,000,000	March 20, 2019 to March 19, 2021
Wang Jisheng	March 20, 2017	4.850	4.82	5,000,000	—	2,000,000 ¹	—	—	3,000,000	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 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 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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 24, 2016	5.824	5.54	14,456,000	—	13,956,000 ³	500,000	—	—	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	38,300,000	—	16,584,000 ⁴	—	—	21,716,000	March 20, 2019 to March 19, 2021
Total				66,056,000	—	35,440,000	1,500,000	—	29,116,000	

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.50.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.31.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.67.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.27.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2020.

OTHER INFORMATION

RESTRICTED SHARE INCENTIVE SCHEME

We have adopted the Restricted Share Incentive Scheme on November 29, 2019 to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group. As at June 30, 2020, the trustee of the Restricted Share Incentive Scheme held 34,800,000 Shares while no Restricted Shares were granted under the Restricted Incentive Scheme. For more details, please refer to our announcement dated November 29, 2019.

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

During the six months ended June 30, 2020, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

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

As at June 30, 2020, 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	16.95%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	388,318,000	16.95%
Perfect Score Zhongfu	Beneficial owner	Long position	483,000,000	21.08%
	Interest in a controlled corporation (Note 2)	Long position	483,000,000	21.08%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	21.08%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	21.08%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	21.08%
UBS Trustees (BVI) Limited	Trustee	Long position	193,200,000	8.43%
Sunshine Life Insurance Co., Ltd* (陽光人壽保險 股份有限公司)	Beneficial owner (Note 6)	Long position	151,482,000	6.61%
Sunshine Insurance Group Co., Ltd* (陽光保險集團 股份有限公司)	Interest in a controlled corporation (Note 6)	Long position	151,482,000	6.61%

* 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 16.95% 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 21.08% 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 21.08% 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 21.08% 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 21.08% of the issued share capital of the Company in which Perfect Score is interested in.
6. 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 6.61% 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, 2020, 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, 2020.

No incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended June 30, 2020.

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 HK3.28 cents per Share for the six months ended June 30, 2020 (2019: HK4.21 cents per Share). The interim dividend will be paid to the Shareholders on Wednesday, October 14, 2020. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Friday, September 25, 2020.

OTHER INFORMATION

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, September 23, 2020 to Friday, September 25, 2020, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, September 22, 2020.

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, 2020.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2020 have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 – “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor is included in this interim report.

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, 2020.

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 28 to 58, which comprise the condensed consolidated statement of financial position as of June 30, 2020 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 21, 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2020

	NOTES	For the six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	733,879	911,724
Operating expenditures			
Staff costs		(153,184)	(190,218)
Construction costs		(23,054)	(29,096)
Consumed materials and goods		(51,319)	(70,080)
Outsourced service costs		(18,682)	(23,421)
Marketing and sales channel costs		(15,224)	(22,411)
Depreciation and amortisation		(63,771)	(59,383)
Other general operating expenditures		(55,132)	(63,365)
Inventory changes		3,282	7,027
Profit from operations		356,795	460,777
Finance costs	5	(4,626)	(5,473)
Share of loss of joint ventures		(134)	—
Other income, gains and losses	6	35,714	35,048
Profit before taxation	7	387,749	490,352
Income tax expense	8	(80,363)	(108,330)
Profit and total comprehensive income for the period		<u>307,386</u>	<u>382,022</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		247,483	296,913
Non-controlling interests		59,903	85,109
		<u>307,386</u>	<u>382,022</u>
		RMB cents	RMB cents
Earnings per share — Basic	10	10.9	13.3
— Diluted	10	10.9	13.2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2020

	NOTES	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Non-current assets			
Property and equipment	11	634,359	549,072
Right-of-use assets	11	130,579	122,781
Investment property		6,509	6,509
Intangible assets	11	129,360	126,140
Goodwill	12	507,757	441,581
Financial assets at fair value through profit or loss	17	38,110	38,110
Deposits paid for acquisition of land use rights		9,054	9,054
Cemetery assets	13	1,543,415	1,519,449
Investment in an associate		750	750
Investment in joint ventures		35,607	35,741
Restricted deposits		59,340	56,268
Deferred tax assets	14	60,088	54,450
Other long-term assets		5,000	5,000
		<u>3,159,928</u>	<u>2,964,905</u>
Current assets			
Inventories	15	478,928	481,059
Trade and other receivables	16	91,055	106,475
Financial assets at fair value through profit or loss	17	639,340	417,580
Time deposits	18	225,500	8,459
Bank balances and cash	19	1,442,366	2,007,142
		<u>2,877,189</u>	<u>3,020,715</u>
Current liabilities			
Trade and other payables	20	509,199	598,306
Lease liabilities		20,613	19,630
Contract liabilities	22	52,930	47,317
Loans from non-controlling shareholders of subsidiaries		41,124	43,938
Income tax liabilities		130,792	134,669
Borrowings	21	40,000	22,500
		<u>794,658</u>	<u>866,360</u>
Net current assets		<u>2,082,531</u>	<u>2,154,355</u>
Total assets less current liabilities		<u>5,242,459</u>	<u>5,119,260</u>

(Continued)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2020

	NOTES	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Non-current liabilities			
Contract liabilities	22	345,795	335,839
Other long-term liabilities		21,392	21,345
Loans from non-controlling shareholders of subsidiaries		6,000	6,000
Borrowings	21	6,360	13,860
Deferred tax liabilities	14	101,436	93,893
Lease liabilities		57,309	63,110
		<u>538,292</u>	<u>534,047</u>
Net assets		<u>4,704,167</u>	<u>4,585,213</u>
Capital and reserves			
Share capital	23	140,255	137,748
Reserves		<u>4,042,063</u>	<u>3,905,322</u>
Equity attributable to owners of the Company		4,182,318	4,043,070
Non-controlling interests		<u>521,849</u>	<u>542,143</u>
Total equity		<u>4,704,167</u>	<u>4,585,213</u>

The condensed consolidated financial statements on page 28 to 58 were approved and authorized for issue by the Board of Directors on August 21, 2020 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, 2020

	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 January 1, 2019 (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
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	296,913	296,913	85,109	382,022
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	6,610	6,610
Dividends recognised 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
At December 31, 2019 (Audited)	137,748	—	1,283,466	84,667	138,800	(105,993)	59,257	2,445,125	4,043,070	542,143	4,585,213
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	247,483	247,483	59,903	307,386
Acquisition of subsidiaries (Note 25)	—	—	—	—	—	—	—	—	—	6,656	6,656
Dividends recognised as distributions (Note 9)	—	—	(88,976)	—	—	—	—	—	(88,976)	—	(88,976)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(103,713)	(103,713)
Transfer to statutory reserve	—	—	—	—	2,245	—	—	(2,245)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	16,860	16,860
Shares purchased by trustee under the restricted share incentive scheme (Note 24(b))	—	(190,069)	1,351	—	—	—	—	—	(188,718)	—	(188,718)
Exercise of share options	2,507	—	200,436	—	—	—	(35,091)	—	167,852	—	167,852
Share based compensation	—	—	—	—	—	—	1,607	—	1,607	—	1,607
At June 30, 2020 (Unaudited)	140,255	(190,069)	1,396,277	84,667	141,045	(105,993)	25,773	2,690,363	4,182,318	521,849	4,704,167

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	387,749	490,352
Adjustments for:		
Finance costs	4,626	5,473
Interest income	(21,821)	(22,312)
Gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL")	(3,740)	(1,936)
Depreciation of property and equipment	23,377	22,570
Amortization of right-of-use assets	11,916	10,050
Amortization of intangible assets	3,877	2,920
Amortization of cemetery assets	24,601	23,843
Net gain on disposal of property and equipment	(71)	(61)
Share of loss of joint ventures	134	—
Expense recognised in respect of equity-settled share based payments	1,607	8,030
	<u>432,255</u>	<u>538,929</u>
Operating cash flows before movements in working capital	432,255	538,929
Increase in restricted deposits	(3,072)	(5,726)
Increase in cemetery assets and inventories	(5,506)	(46,672)
Decrease (increase) in trade and other receivables	11,558	(7,768)
Decrease in trade and other payables	(43,883)	(77,145)
Increase in contract liabilities	13,168	17,877
	<u>404,520</u>	<u>419,495</u>
Cash generated from operations	404,520	419,495
Income taxes paid	(91,644)	(115,508)
	<u>312,876</u>	<u>303,987</u>
NET CASH GENERATED FROM OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of and deposits paid for property and equipment and landscape and facilities	(79,580)	(56,509)
Purchase of computer software	(3,946)	(1,686)
Payment for contract fee and property and equipment for operating funeral and burial projects	(29,476)	(49,793)
Prepayment to right-of-use assets	—	(228)
Proceeds on disposal of property and equipment	300	305
Acquisition of subsidiaries	(9,713)	(36,503)
Interest received	26,086	18,541
Gain received from fair value changes of financial assets at FVTPL	3,740	1,936
Investment to an associate	—	(4,988)
Investment to a joint venture	—	(1,000)
Repayment of entrusted loan	1,500	1,500
Withdrawal of time deposits	8,459	—
Placement of time deposits	(225,500)	(58,080)
Withdrawal of financial assets at FVTPL	356,610	291,210
Purchase of financial assets at FVTPL	(578,370)	(156,465)
	<u>(529,890)</u>	<u>(51,760)</u>
NET CASH USED IN INVESTING ACTIVITIES		

(Continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
FINANCING ACTIVITIES		
New borrowings raised	50,000	20,000
Repayment of borrowings	(40,000)	(7,500)
Repayments to non-controlling interests	(3,000)	(7,000)
Capital contribution from non-controlling interests	7,060	2,200
Interest paid	(2,908)	(3,751)
Acquisition of non-controlling interests of subsidiaries (Note 20)	(135,150)	—
Dividends paid to non-controlling interests	(103,001)	(113,440)
Dividends paid to owners of the Company	(88,976)	(73,292)
Proceeds from exercise of share options	167,852	62,358
Payment for repurchase of ordinary shares	(188,718)	(234)
Disposal of partial interest in a subsidiary	—	100
Repayments of leases liabilities	(10,671)	(11,041)
Repayments of other long-term liabilities	(250)	—
NET CASH USED IN FINANCING ACTIVITIES	(347,762)	(131,600)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(564,776)	120,627
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,007,142	1,493,651
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	1,442,366	1,614,278

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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, 2020 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

3. PRINCIPAL ACCOUNTING POLICIES – *continued*

Application of amendments to IFRSs – *continued*

In addition, the Group has early applied the Amendment to IFRS 16 “COVID-19-Related Rent Concessions”.

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the 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.

3.1 Impacts and accounting policies on early application to IFRS 16 “COVID-19-Related rental concessions”

3.1.1 Accounting policies

Leases

COVID-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3.1.2 Transition and summary of effects

The Group has early applied the amendments in the current interim period. The application has no impact to the opening retained profits at January 1, 2020. No material changes in lease payments that resulted from rent concessions were recognised in the profit or loss for the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

4A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Geographical markets		
Mainland China	<u>733,879</u>	<u>911,724</u>
Timing of revenue recognition		
A point in time	<u>705,311</u>	886,539
Over time	<u>28,568</u>	<u>25,185</u>
Total	<u>733,879</u>	<u>911,724</u>

4B. OPERATING SEGMENTS

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. Other services — 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, 2020

4B. OPERATING SEGMENTS – *continued*

Segment revenues and results

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30, 2020</i>						
<i>(unaudited):</i>						
External sales	618,830	102,146	12,903	733,879	—	733,879
Inter-segment sales	—	—	3,451	3,451	(3,451)	—
Total	618,830	102,146	16,354	737,330	(3,451)	733,879
Segment profit (loss)	358,777	10,127	(13,589)	355,315	1,480	356,795
Other income, gains and losses						35,714
Finance costs						(4,626)
Share of loss of joint ventures						(134)
Profit before taxation						387,749
	Burial services RMB'000	Funeral services RMB'000	Other 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						490,352

The accounting policies of the operating segments are similar to those of the Group's accounting policies. Segment profit (loss) represents the profit (loss) made by each segment without allocation of other income, gains and losses, share of loss of joint ventures and finance costs. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

5. FINANCE COSTS

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest expense on borrowings	2,029	2,475
Interest expense on loans from non-controlling interests	1,065	1,520
Interest accretion for lease liabilities	1,532	1,478
Total finance costs	<u>4,626</u>	<u>5,473</u>

6. OTHER INCOME, GAINS AND LOSSES

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest income	21,821	22,312
Gain from changes in fair value of financial assets mandatorily measured at FVTPL	3,740	1,936
Government grants	11,092	8,207
Net foreign exchange gain	237	1,291
Others	(1,176)	1,302
Total	<u>35,714</u>	<u>35,048</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Staff costs, including remuneration of the Directors of the Company (the "Directors"):		
Salaries, wages, bonus and other benefits	141,631	169,198
Retirement benefits scheme contributions	9,946	12,990
Share based payments expenses	1,607	8,030
Total staff costs	<u>153,184</u>	<u>190,218</u>
Depreciation of property and equipment	23,377	22,570
Amortization of right-of-use assets	11,916	10,050
Amortization of intangible assets	3,877	2,920
Amortization of cemetery assets	<u>24,601</u>	<u>23,843</u>

8. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("PRC EIT")		
Current period	89,753	117,520
Over provision in prior years	(1,988)	(1,592)
Deferred tax (Note 14)	<u>(7,402)</u>	<u>(7,598)</u>
	<u>80,363</u>	<u>108,330</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

9. DIVIDENDS

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period 2019 Final – HK4.21 cents (2019: 2018 final dividend – HK3.72 cents) per share	<u>88,976</u>	<u>73,292</u>

Subsequent to the end of the current interim period, the Directors have declared an interim dividend of Hong Kong Dollar (“HK\$”) 3.28 cents per share (2019: HK4.21 cents per share).

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,	
	2020 (Unaudited)	2019 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>247,483</u>	<u>296,913</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,261,276,845</u>	2,228,885,941
Effect of dilutive potential ordinary shares:		
Share options	<u>13,601,842</u>	<u>17,497,867</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,274,878,687</u></u>	<u><u>2,246,383,808</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

During the period, the Group acquired property and equipment of approximately RMB112,829,000 (six months ended June 30, 2019: RMB28,468,000), among which RMB54,921,000 was acquired through acquisition of subsidiaries for business expansion.

During the period, the Group disposed of property and equipment with carrying amount of approximately RMB229,000 (six months ended June 30, 2019: RMB244,000) for cash proceeds of approximately RMB300,000 (six months ended June 30, 2019: RMB305,000) resulting in a gain on disposal of approximately RMB71,000 (six months ended June 30, 2019: RMB61,000).

As at June 30, 2020, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB173,577,000 (December 31, 2019: RMB138,073,000) had not been obtained.

During the period, the Group entered into several new lease agreements with lease terms ranging from 2 to 5 years. The Group is required to make regular fixed payments to the lessors. Upon lease commencement, the Group recognised right-of-use assets of RMB19,714,000 (six months ended June 30, 2019: RMB17,346,000) and lease liabilities of RMB4,691,000 (six months ended June 30, 2019: RMB9,147,000).

During the period, lessors of the relevant properties provided rent concessions to the Group through rent reductions ranging from 50% to 100% over one to three months.

These rent concessions occurred as a direct consequence of COVID-19 pandemic and met all of the conditions in IFRS 16 46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the period, no material effects on changes in lease payments due to forgiveness or waive by the lessors for the relevant leases were recognised.

During the period, the Group acquired intangible assets of approximately RMB7,097,000 (six months ended June 30, 2019: RMB62,798,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

12. GOODWILL

The movements in goodwill during the six months ended June 30, 2020 are as follows:

	For the six months ended June 30, 2020 RMB'000
COST	
At the beginning of the period (audited)	441,581
Arising on acquisition of subsidiaries (Note 25)	<u>66,176</u>
At the end of the period (unaudited)	<u><u>507,757</u></u>

13. CEMETERY ASSETS

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Land costs	1,022,377	1,016,107
Landscape facilities	203,595	200,026
Development cost	<u>317,443</u>	<u>303,316</u>
	<u><u>1,543,415</u></u>	<u><u>1,519,449</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

14. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the six months ended June 30, 2020:

	Contract liabilities RMB'000	Tax losses RMB'000	Fair value adjustment RMB'000	Total RMB'000
At January 1, 2019 (audited)	31,123	12,158	(92,706)	(49,425)
Acquisition of subsidiaries	—	—	(1,325)	(1,325)
Credit to profit or loss (Note 8)	2,296	3,261	2,041	7,598
At June 30, 2019 (unaudited)	<u>33,419</u>	<u>15,419</u>	<u>(91,990)</u>	<u>(43,152)</u>
At January 1, 2020 (audited)	35,438	16,953	(91,834)	(39,443)
Acquisition of subsidiaries (Note 25)	—	—	(9,307)	(9,307)
Credit to profit or loss (Note 8)	1,548	4,088	1,766	7,402
At June 30, 2020 (unaudited)	<u>36,986</u>	<u>21,041</u>	<u>(99,375)</u>	<u>(41,348)</u>

Note: Fair value adjustment mainly refers to revaluation of property and equipment and cemetery assets upon the business combination arising 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:

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Deferred tax assets	60,088	54,450
Deferred tax liabilities	(101,436)	(93,893)
	<u>(41,348)</u>	<u>(39,443)</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, 2020

14. DEFERRED TAXATION – *continued*

The Group has unused tax losses of approximately RMB166,214,000 (December 31, 2019: RMB145,625,000) as at June 30, 2020. Deferred tax assets have been recognised in respect of approximately RMB84,174,000 (December 31, 2019: RMB67,814,000) of such losses as at June 30, 2020. No deferred tax assets have been recognised in respect of the remaining approximately RMB82,040,000 (December 31, 2019: RMB80,175,000) at June 30, 2020 due to the unpredictability of future profit streams.

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

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
2020	—	203
2021	2,484	2,484
2022	3,726	3,789
2023	10,308	17,293
2024	16,050	22,218
2025	13,504	—
	46,072	45,987

15. INVENTORIES

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Burial plots	336,247	335,258
Tombstone	88,471	93,562
Others	54,210	52,239
	478,928	481,059

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

16. TRADE AND OTHER RECEIVABLES

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Trade receivables	<u>44,128</u>	<u>56,480</u>
Other receivables comprise:		
Prepayments and rental deposits on properties	1,925	1,511
Staff advances	4,564	3,091
Entrusted loan (Note)	7,450	8,950
Deposit for new projects	4,701	5,539
Prepayments to suppliers	8,148	8,751
Interest receivables	6,079	10,344
Others	<u>14,060</u>	<u>11,809</u>
	<u>91,055</u>	<u>106,475</u>

Note: As at June 30, 2020, the Group has advanced a loan amounting to RMB7,450,000 (December 31, 2019: RMB8,950,000) 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 services 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, 2020

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:

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Within one year	40,355	52,510
Over one year but less than two years	2,599	668
Over two years but less than three years	316	—
Over three years but less than four years	858	3,302
	44,128	56,480

Certain portion of trade receivables of sales of cremation machines with instant settlement arrangement is not considered past due as the Group maintains good relationship with the customers and do not notice any delay or expected delay in payment.

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 FVTPL:

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Unlisted cash management products (a)	639,340	417,580
Equity investment (b)	38,110	38,110
	677,450	455,690

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

(a) Unlisted cash management products

During the period, the Group entered into several contracts of cash management products with banks. The entire combined contracts have been accounted as financial assets at FVTPL on initial recognition.

Details of the cash management products as at June 30, 2020 are as follows:

Bank	Name of products	Currency	Amount		Expected yield rate	Principal-guaranteed
			RMB'000	Term/call date		
Shanghai Pudong Development Bank	Li Duo Duo Cash Management (“利多多現金管理”) No. 2 (note 1)	RMB	15,000	Redeemable on call after 7 work days on work day	2.75%	N
Shanghai Pudong Development Bank	Tian Tian Li (“天添利”) No. 1 (note 1)	RMB	10,000	Redeemable on call after 1 work day on work day	2.45%	N
Shanghai Pudong Development Bank	Yue Yue Xiang Ying No. 1 Zeng Li (“月月享盈一號增利”) Wealth Management Plan (note 1)	RMB	51,000	1 month cycle	3.75%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan (“天添利普惠計劃”) (note 1)	RMB	15,970	Redeemable on call after 1 work day on work day	2.52%	N
Shanghai Pudong Development Bank	Li Duo Duo E Lu Fa (“利多多E路發”) B (note 1)	RMB	24,670	Redeemable on call after 14 work days on work day	2.85%	N
Shanghai Pudong Development Bank	Entity-targeted Structural Deposits (note 2)	RMB	31,000	360 days	1.4%–3.7%	Y
Shanghai Pudong Development Bank	Zhou Zhou Xiang Ying Zeng Li (“周周享盈增利”) No. 1 (note 1)	RMB	74,000	7 days cycle	3.41%	N
Shanghai Pudong Development Bank	Tian Tian Li Jin Qu (“天添利進取”) No. 1 (note 1)	RMB	3,000	Redeemable on call after 1 work day on work day	2.46%	N
Shanghai Pudong Development Bank	Entity-targeted Structural Deposits (note 2)	RMB	200,000	3 months	1.4%–3.4%	Y
Shanghai Pudong Development Bank	Cai Fu Ban Che Jin Qu (“財富班車進取”) No. 3 (note 1)	RMB	1,200	90 days	3.75%	N
Shanghai Pudong Development Bank	Cai Fu Ban Che Jin Qu (“財富班車進取”) No. 4 (note 1)	RMB	7,000	180 days	3.80%	N
Shanghai Pudong Development Bank	Cai Fu Ban Che Jin Qu (“財富班車進取”) No. 4 (note 1)	RMB	4,500	180 days	3.80%	N
Bank of Shanghai	“Huicai” Yi Jing Ling (“慧財易精靈”) (note 1)	RMB	50,000	Redeemable on call after 1 work day on work day	3.20%	N
China Construction Bank	Xin Xin Xiang Rong (“鑫鑫向榮”) (note 1)	RMB	100,000	A term of 93 days	3.65%	N
China Construction Bank	Qian Yuan Ri Ri Xin (“乾元日日鑫”) (note 1)	RMB	30,000	Redeemable on call after 1 work day on work day	3.20%	N
China Construction Bank	Qian Yuan Ri Ri Xin (“乾元日日鑫”) (note 1)	RMB	2,000	Redeemable on call after 1 work day on work day	3.20%	N
China Minsheng Bank	Sui Xiang Cun (“隨享存”) (note 1)	RMB	20,000	7 days cycle	2.03%	N

Note 1: Investment portfolio of the products includes government debt instruments, treasury notes, corporate bonds and etc.

Note 2: The products are entity-targeted structural deposits, the yield rate of which is determined with reference to the currency exchange performance of Euros to US Dollar or 1-month US Dollar London Interbank Offered Rate.

In the opinion of the Directors, the fair value of the cash management products at June 30, 2020 approximated their principal amounts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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

(b) Equity investment

In July 2018, the Group has made an equity investment in Changchun Huaxia Cemetery Co., Ltd. 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 RMB38 million as at June 30, 2020 and the fair value change of these equity investments is insignificant since December 31, 2019. The performance of Huaxia Cemetery for the period ended June 30, 2020 was consistent with the expectation at time of investment decision.

18. TIME DEPOSITS

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
RMB-denominated	225,500	8,459

As at June 30, 2020, the Group had fixed-term deposits of RMB225,500,000 in banks with maturity of six months and fixed interest rate of 2.972% per annum (December 31, 2019: fixed interest rate of 1.937% per annum).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

19. BANK BALANCES AND CASH

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Interest rate per annum		
– RMB	0.35%–3.40%	0.30%–3.70%
– HK\$	0.01%–3.30%	0.01%–3.50%
– US\$	0.05%–0.44%	0.05%

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

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
HK\$	41,519	80,904
US\$	34,497	34,511
	<u>76,016</u>	<u>115,415</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

20. TRADE AND OTHER PAYABLES

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Trade payables	201,070	199,664
Other payables comprise:		
Advances and deposits from customers	39,482	12,535
Payables for acquisition of property and equipment	1,726	1,499
Salary, welfare and bonus payables	60,651	130,066
Other accrued expenses	50,183	53,912
Consideration payable for acquisition of subsidiaries	109,682	37,703
Consideration payable for acquisition of non-controlling interests (Note)	7,171	142,321
Others	39,234	20,606
	509,199	598,306

Note: In 2019, the Group entered into agreements with the non-controlling shareholders of two of its subsidiaries, to acquire 49% non-controlling interests in Beijing Temshine Cemetery Design Group Ltd. (北京天泉佳境陵園建築設計有限公司) and 40% non-controlling interests in Chongqing Baitayuan Funeral and Burial Development Co., Ltd. (重慶白塔園殯葬開發有限公司) with total consideration of RMB145,384,000, of which RMB3,063,000 was paid in prior year and RMB135,150,000 was paid during this period.

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

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
0-90 days	100,111	64,239
91-180 days	23,646	26,783
181-365 days	27,039	33,450
Over 365 days	50,274	75,192
	201,070	199,664

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

21. BORROWINGS

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Bank borrowings		
– Secured by the Group's equity interest in a subsidiary	21,360	36,360
– Unsecured	25,000	—
	<u>46,360</u>	<u>36,360</u>
Less: amounts due within one year shown under current liabilities	<u>(40,000)</u>	<u>(22,500)</u>
Amounts shown under non-current liabilities	<u>6,360</u>	<u>13,860</u>

The bank borrowings secured by the Group's equity interest in a subsidiary carried interest at 4.998% per annum from January 1, 2020 to March 10, 2020 and 4.35% per annum from March 11, 2020 to June 30, 2020 (December 31, 2019: 4.998%).

The bank borrowings unsecured carried interest at 4.35% per annum from January 20, 2020 to March 29, 2020 and 3.90% per annum from March 30, 2020 to June 30, 2020.

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

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Net book value of the Group's equity interest in a subsidiary	<u>108,602</u>	<u>126,416</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

22. CONTRACT LIABILITIES

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

23. SHARE CAPITAL

Issued and fully paid:

	Number of shares	Amount US\$	Share capital RMB'000
At January 1, 2020 (Audited)	2,255,810,422	22,558,104	137,748
Exercise of share options (Note 24(a))	<u>35,440,000</u>	<u>354,400</u>	<u>2,507</u>
At June 30, 2020 (Unaudited)	<u>2,291,250,422</u>	<u>22,912,504</u>	<u>140,255</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, 2020

24. SHARE BASED COMPENSATION

(a) Share Option Scheme

The Company adopted a share option scheme on December 3, 2013 (the “Share Option Scheme”) which shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Directors. Set out below are details of movements in the outstanding options granted under the Share Option Scheme during the six months ended June 30, 2020:

	Date of grant	Exercise price per Share (HK\$)	Number of options				Options balance outstanding as at June 30, 2020
			Options balance outstanding as at January 1, 2020	Granted during the six months ended June 30, 2020	Exercised during the six months ended June 30, 2020	Lapsed during the six months ended June 30, 2020	
Directors							
Bai Xiaojiang	March 20, 2017	4.850	5,000,000	—	(2,000,000)	—	3,000,000
Wang Jisheng	March 20, 2017	4.850	5,000,000	—	(2,000,000)	—	3,000,000
Ma Xiang	March 24, 2016	5.824	500,000	—	—	(500,000)	—
Lu Hesheng	March 24, 2016	5.824	500,000	—	—	(500,000)	—
	March 20, 2017	4.850	500,000	—	—	—	500,000
Chen Qunlin	March 24, 2016	5.824	300,000	—	(300,000)	—	—
	March 20, 2017	4.850	300,000	—	—	—	300,000
Luo Zhuping	March 24, 2016	5.824	300,000	—	(300,000)	—	—
	March 20, 2017	4.850	300,000	—	—	—	300,000
Ho Man	March 24, 2016	5.824	300,000	—	(300,000)	—	—
	March 20, 2017	4.850	300,000	—	—	—	300,000
			13,300,000	—	(4,900,000)	(1,000,000)	7,400,000
Other employees							
	March 24, 2016	5.824	14,456,000	—	(13,956,000)	(500,000)	—
	March 20, 2017	4.850	38,300,000	—	(16,584,000)	—	21,716,000
Total			66,056,000	—	(35,440,000)	(1,500,000)	29,116,000
Exercisable at June 30			41,206,000				29,116,000
Weighted average exercise price (HK\$)			5.74	N/A	5.26	5.82	4.85

As at June 30, 2020, 29,116,000 (December 31, 2019: 66,056,000) share options remain outstanding under the Share Option Scheme, representing 1.27% (December 31, 2019: 2.93%) 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\$7.04 (for the six-month ended June 30, 2019: HK\$5.97).

The Group recognised a share option expense of approximately RMB1,607,000 for the six-month ended June 30, 2020 (for the six-month ended June 30, 2019: RMB8,030,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

24. SHARE BASED COMPENSATION – *continued*

(b) Restricted Share Incentive Scheme

The Company has adopted a restricted share incentive scheme on November 29, 2019 to provide incentive or reward to eligible participants including the directors of the company and employees for their contribution or potential contribution to the Company. The Company entered into a trust deed with the Computershare Hong Kong Trustees Limited as the trustee for the administration of the scheme.

During the period, the trustee of the restricted share incentive scheme purchased 34,800,000 of the Company's shares from the open market. The total amount paid to acquire the shares was approximately RMB190,069,000 and has been deducted from shareholders' equity as at June 30, 2020. The shares purchased by the trustee that are not yet vested for this restricted share incentive scheme were recorded as treasury shares of the Group. As at June 30, 2020, there were 34,800,000 treasury shares held through the trustee of the restricted share incentive scheme, and no such shares have been granted.

25. ACQUISITION OF A SUBSIDIARY

Acquisition of 80% equity interest in Jinsha Fuze Funeral and Burial Co., Ltd. ("Jinsha Fuze Funeral and Burial Project")

In June 2020, a subsidiary of Fu Shou Yuan International Group Limited entered into an agreement with independent third parties not connected to the Group to acquire 80% equity interest in Jinsha Fuze Funeral and Burial Project by phases. According to the agreement, the Group shall make total capital injection of RMB49,000,000 in Jinsha Fuze Funeral and Burial Project by two batches and pay cash consideration of RMB83,000,000 to the independent third party. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising from the acquisition was approximately RMB66,176,000. Jinsha Fuze Funeral and Burial Project is engaged in the provision of funeral and burial services and was acquired as part of the Group's expansion.

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

	RMB'000
Property and equipment	54,814
Cemetery assets	22,317
Right-of-use assets	15,023
Inventories	238
Trade and other receivables	755
Bank balances and cash	1,522
Trade and other payables	(49,681)
Contract liabilities	(2,401)
Deferred tax liabilities	(9,307)
Net assets acquired	33,280
Non-controlling interests	(6,656)
Goodwill	66,176

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

25. ACQUISITION OF A SUBSIDIARY – *continued*

Acquisition of 80% equity interest in Jinsha Fuze Funeral and Burial Co., Ltd. (“Jinsha Fuze Funeral and Burial Project”) – *continued*

As of June 30, 2020, the Group has injected the paid-in capital of RMB26,000,000 into Jinsha Fuze Funeral and Burial Project. Moreover, the Group is subject to a cash consideration payable of RMB83,000,000 and is committed to a further capital injection of RMB23,000,000 into Jinsha Fuze Funeral and Burial Project.

	RMB'000
Bank balances and cash acquired	1,522
Net cash inflow on acquisition	1,522

Goodwill arose from the acquisition of Jinsha Fuze Funeral and Burial Project because the consideration for the combination effectively included amounts in relation to the future business growth of Jinsha Fuze Funeral and Burial Project. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Had the acquisition been completed on January 1, 2020, total group revenue for the period would have been RMB743,797,000 and profit for the period would have been RMB308,615,000. 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, 2020, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Jinsha Fuze Funeral and Burial Project 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 recognised 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, 2020

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

Fair value of the Group's financial assets that are measured at fair value on a recurring basis – *continued*

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	June 30, 2020 (unaudited)	December 31, 2019 (audited)		
Financial assets at fair value through profit or loss	Cash management products in PRC with principal of RMB639,340,000	Cash management products in PRC with principal of RMB417,580,000	Level 3	Discounted cash flows Key unobservable input are: (1) Expected return; (2) Risk-adjusted discount rate (Note)
Unquoted equity investments	10% equity investment in Changchun Huaxia Cemetery Co., Ltd. of RMB38,110,000	10% equity investment in Changchun Huaxia Cemetery Co., Ltd. of RMB38,110,000	Level 3	Income approach Key unobservable inputs are: (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 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, 2020

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

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL RMB'000
At January 1, 2019 (audited)	607,181
Purchase	156,465
Settlement	<u>(291,210)</u>
At June 30, 2019 (unaudited)	<u>472,436</u>
At January 1, 2020 (audited)	455,690
Purchase	578,370
Settlement	<u>(356,610)</u>
At June 30, 2020 (unaudited)	<u>677,450</u>

27. CONTINGENCIES AND COMMITMENTS

(a) Capital and other commitments

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Acquisition of property and equipment and cemetery assets: – contracted for but not provided in the condensed consolidated financial statements	<u>59,545</u>	<u>106,875</u>
Acquisition of subsidiaries and non-controlling interests: – contracted for but not provided in the condensed consolidated financial statements	<u>–</u>	<u>95,000</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

27. CONTINGENCIES AND COMMITMENTS – *continued*

(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 interests, entered into unauthorized transactions on behalf of Wuyuan Wanshoushan Cemetery to guarantee some of his personal loans, thereby incurring potential guarantee liability for Wuyuan Wanshoushan Cemetery. Mr. Liang had also allegedly transferred some of his other personal loans to Wuyuan Wanshoushan Cemetery without any proper corporate authorizations. Mr. Liang had not disclosed any of the abovementioned loans and guarantees to the Group before the completion of the acquisition of Wuyuan Wanshoushan Cemetery.

As of the date of these condensed consolidated financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the “Proceedings”) of which 9 were either settled, subsequently withdrawn or concluded by the Province People’s Courts resulting in a RMB2.3 million net settlement paid by the Group.

The total claims on the remaining 3 Proceedings (the “Remaining Proceedings”), where appropriate, including the interest accrued up to the date of these condensed consolidated financial statements, amounted to RMB54.6 million and the status is disclosed as follows:

- 3 claims over RMB54.6 million in total awarded in favor of the plaintiffs in accordance with respective People’s Court’s judgement;

The three cases above where the judgement from the People’s court were awarded against Wuyuan Wanshoushan Cemetery. However, the public security department had filed investigation for suspected crimes on the relevant personnel involved in the lawsuits.

In one of the three cases, buildings of Wuyuan Wanshoushan Cemetery were restricted by court with carrying amounts of RMB9.1 million.

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.

28. SUBSEQUENT EVENTS

In July 2020, the Group entered into an agreement to acquire 100% equity interests in Harbin Mingxiyuan Cemetery Co., Ltd. (哈爾濱明西園公墓有限責任公司), which is principally engaged in the provision of cemetery operation in Harbin of Heilongjiang Province, for a consideration of RMB450 million. As at the date of this interim report, this acquisition has been completed.

DEFINITIONS AND GLOSSARY

“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Fu Shou Yuan Civil Service Co., Ltd.* (安陽福壽園民生服務有限公司), formerly known as 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
“Changchun Huaxia Cemetery”	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of PRC
“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 interim report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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
“Director(s)”	the director(s) of the Company
“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

DEFINITIONS AND GLOSSARY

“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
“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
“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Jinsha Fuze Funeral and Burial Project”	Jinsha Fuze Funeral and Burial Co., Ltd.* (金沙縣福澤殯葬有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“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

DEFINITIONS AND GLOSSARY

“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, 2020
“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the Company with effected from November 29, 2019
“Restricted Shares”	any share(s) that may be offered by the Company to any selected participant pursuant to the Restricted Share Incentive Scheme
“RMB”	Renminbi yuan, the lawful currency of the PRC
“same period of last year”	the six months ended June 30, 2019
“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 Group Co., Ltd.* (上海福壽園實業集團有限公司), formerly known as 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
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“sq.m.”	square meters
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“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
“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.