Fu Shou Yuan International Group Limited
福壽園國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

2017 INTERIM RESULTS HIGHLIGHTS

- Total revenue for the six months ended June 30, 2017 amounted to approximately RMB770.2 million, representing an increase of approximately 20.1% compared with the six months ended June 30, 2016.
- Profit and total comprehensive income attributable to owners of the Company for the six months ended June 30, 2017 amounted to approximately RMB228.8million, representing an increase of 28.6% compared with the six months ended June 30, 2016.
- Basic earnings per Share for the six months ended June 30, 2017 amounted to approximately RMB10.8 cents, increased by 27.1% compared with the six months ended June 30, 2016.
- The Board has declared an interim dividend of HK3.24 cents per Share for the six months ended June 30, 2017.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the unaudited consolidated financial results of the Group for the six months ended June 30, 2017 together with the comparative figures for the corresponding period in 2016 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2017

	NOTES	**June 30, 2017** *RMB'000* *(Unaudited)*	**December 31, 2016** *RMB'000* *(Audited)*
Non-current assets			
Property and equipment	9	417,590	377,429
Prepaid lease payments		21,373	21,620
Investment property		6,509	6,509
Intangible assets		14,908	14,035
Goodwill	10	314,085	290,634
Deposits paid for acquisition of land use rights		—	49,329
Cemetery assets	11	1,207,444	1,104,531
Investment in a joint venture		30,398	30,485
Restricted deposits		37,123	32,216
Deferred tax assets	18	27,266	27,513
Other long-term assets		14,710	13,800
		2,091,406	1,968,101
Current assets			
Inventories	12	383,032	372,407
Trade and other receivables	13	55,814	62,954
Time deposits		111,000	293,850
Bank balances and cash	14	1,605,849	1,238,906
		2,155,695	1,968,117
Current liabilities			
Trade and other payables	15	358,108	287,642
Deferred income	17	23,812	18,200
Income tax liabilities		101,336	114,884
Borrowings	16	68,450	60,450
		551,706	481,176
Net current assets		1,603,989	1,486,941
Total assets less current liabilities		3,695,395	3,455,042

	NOTES	June 30, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
Non-current liabilities			
Deferred income	17	242,210	223,070
Other long-term liability		9,910	5,910
Loans from non-controlling interests		34,308	34,360
Borrowings	16	63,020	73,520
Deferred tax liabilities	18	88,683	89,142
		438,131	426,002
Net assets		3,257,264	3,029,040
Capital and reserves			
Share capital		129,578	127,470
Reserves		2,643,473	2,408,710
Equity attributable to owners of the Company		2,773,051	2,536,180
Non-controlling interests		484,213	492,860
Total equity		3,257,264	3,029,040

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended June 30, 2017

1. GENERAL

The Company is a limited company incorporated on January 5, 2012 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands, and its shares have been listed on the Stock Exchange since December 19, 2013. The address of the registered office of the Company is Estera Trust (Cayman) Limited at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and the address of the principal place of business in Hong Kong of the Company is Unit 709, 7/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong. The Group is mainly engaged in the provision of burial services, funeral services and other services.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the Period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRS") that are mandatorily effective for the Period.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition

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

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the burial plots;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the burial plots sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

4. SEGMENT INFORMATION

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

	For the six months ended June 30,	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Burial Services		
Sale of burial plots		
Customized burial (note (a))	179,110	140,380
Artistic burial (note (b))	289,200	234,979
Traditional burial	110,617	108,150
Lawn burial (note (c))	35,693	25,306
Green burial (note (d))	10,968	7,293
Indoor burial	11,208	8,310
Other burial-related services (note (e))	45,867	37,510
Cemetery maintenance services	11,723	8,228
	694,386	570,156
Funeral services	73,879	70,071
Other services	4,962	2,925
Inter-segments elimination	(2,982)	(1,611)
	770,245	641,541

Notes:

(a) Customized burial refers to burial plots that the customers are able to fully personalize and customize, among others, the location, size and design and layouts of the burial plots, and the types and styles of memorials and decorative items to be used.

(b) Artistic burial, which allows the customers to choose from an extensive range of pre-designed and pre-fabricated memorials to be used on burial plots that are uniformed in size and landscape.

(c) Lawn burial refers to burial plots situated on the well-kept lawns with flower beds and/or grave markers at the head. The customers are able to choose the location of the lawn burial plots and may add photographs and/or inscriptions onto the grave markers.

(d) Green burial refers to environmental friendly and space saving burial plots, under natural grave markers such as fieldstones, trees and flower beds, or interred into low rising wall in respective cemeteries.

(e) Other burial-related services represent revenues from miscellaneous services such as the organization and conducting of burial rituals, the design of the tombstone, the trading of flower and additional engraving fees.

Geographical information

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

	For the six months ended June 30,	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Shanghai	421,605	347,720
Henan	40,992	21,366
Chongqing	35,210	42,068
Anhui	68,307	64,744
Shandong	27,890	19,590
Liaoning	96,732	94,520
Jiangxi	20,378	18,279
Fujian	15,988	14,076
Zhejiang	3,965	2,495
Jiangsu	37,198	15,369
	768,265	640,227

5. OTHER INCOME AND GAINS, NET

	For the six months ended June 30,	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Interest income	18,854	17,907
Government grants	5,506	4,810
Management service income	1,304	1,304
Exchange (loss) gain	(1,831)	1,752
Others	(52)	237
	23,781	26,010

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	136,412	115,668
Retirement benefits scheme contributions	8,432	7,309
Share based payments expenses	20,775	18,360
Total staff costs	165,619	141,337
Depreciation of property and equipment	15,355	14,893
Amortization of intangible assets and prepaid lease payments	721	557
Amortization of cemetery assets	19,107	17,506
Amortization of other long-term assets	300	300

7. INCOME TAX EXPENSE

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

Under EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the Period with the exception of Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan, which were subject to a lower concessionary income tax rate of 15% according to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39). The preferential tax rate for Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan is effective until 2020.

FSY Hong Kong is subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been provided as the Group did not have assessable profit earned in or derived from Hong Kong during the Period.

8. EARNINGS PER SHARE

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

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

9. PROPERTY AND EQUIPMENT

	June 30, 2017	**December 31, 2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Buildings	208,368	205,768
Leasehold improvements	12,104	12,660
Furniture, fixtures and equipment	26,016	27,698
Motor vehicles	14,866	16,521
Construction in progress	156,236	114,782
	417,590	377,429

10. GOODWILL

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

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

11. CEMETERY ASSETS

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

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

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

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

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

12. INVENTORIES

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

13. TRADE AND OTHER RECEIVABLES

	June 30, 2017	December 31, 2016
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Trade receivables	16,965	19,038
Other receivables comprise:		
Prepayments and rental deposits on properties	3,994	3,009
Performance bond for a new project	—	8,261
Staff advances	2,237	1,507
Entrusted loan (note)	13,950	14,400
Management service income receivable	572	1,200
Interest receivables	2,387	4,219
Others	15,709	11,320
	38,849	43,916
	55,814	62,954

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

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

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

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

14. BANK BALANCES AND CASH

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

	June 30, 2017 *RMB'000* *(Unaudited)*	December 31, 2016 *RMB'000* *(Audited)*
Interest rate per annum		
— RMB	0.35%-5.20%	0.35%-3.54%
— HK$	0.01%-1.13%	0.01%
— 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, 2017 RMB'000 (Unaudited)	December 31, 2016 RMB'000 (Audited)
HK$	71,999	39,290
US$	32,905	33,030
	104,904	72,320

15. TRADE AND OTHER PAYABLES

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

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

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

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

16. BORROWINGS

	June 30, 2017	December 31, 2016
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Bank borrowings		
Secured by the Group's equity interest in subsidiaries	91,520	94,020
Unsecured	39,950	39,950
	131,470	133,970
The carrying amounts of the above borrowings are repayable:		
Within one year	68,450	60,450
More than one year, but not exceeding two years	21,000	21,000
More than two years but not exceeding five years	42,020	52,520
	131,470	133,970

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

17. DEFERRED INCOME

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

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

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

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

18. DEFERRED TAXATION

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

	June 30, 2017	**December 31, 2016**
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Time difference for certain accruals and liabilities	24,079	22,809
Unused tax losses	3,187	4,704
Fair value adjustment	(88,683)	(89,142)
	(61,417)	(61,629)

19. DIVIDENDS

During the Period, the Company has declared and paid the final dividends of HK2.60 cents per Share for 2016, amounting to approximately RMB48.0 million.

On August 11, 2017, an interim dividend in respect of 2017 of HK3.24 cents per Share was declared by the Directors.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the results of the Company and its subsidiaries for the six months ended June 30, 2017.

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

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

BUSINESS COMMENTARY

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

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

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

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

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

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

REVENUE

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

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

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

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

Our cemeteries and funeral facilities are strategically located in major cities across 10 provinces in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region for the Period:

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

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

BURIAL SERVICES

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

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

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

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

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

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

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

COST OF SALES AND SERVICES

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

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Cost of sales and services (RMB'000)	*% of total cost of sales and services*	*Cost of sales and services (RMB'000)*	*% of total cost of sales and services*
Burial services	124,889	81.1%	107,938	79.8%
Funeral services	27,535	17.9%	26,310	19.5%
Other services	4,033	2.6%	2,305	1.7%
Inter-segment elimination	(2,410)	(1.6%)	(1,363)	(1.0%)
Total	154,047	100.0%	135,190	100.0%

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

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

	Six Months Ended June 30, 2017		June 30, 2016	
	Cost of sales and services (RMB'000)	*% of total cost of sales and services*	*Cost of sales and services (RMB'000)*	*% of total cost of sales and services*
Tombstone cost	36,298	29.1%	31,793	29.5%
Land cost	18,896	15.1%	14,228	13.2%
Development cost	40,576	32.5%	31,721	29.4%
Taxes	532	0.4%	5,457	5.0%
Cemetery maintenance cost	10,060	8.1%	7,683	7.1%
Costs for other burial related services	18,527	14.8%	17,056	15.8%
Total	124,889	100.0%	107,938	100.0%

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by RMB109.8 million, or 21.7%, from RMB506.4 million for the Same Period of last year to RMB616.2 million for the Period. We maintained a relatively high gross profit margin as we have been committing to and delivering highest quality of service in the death care services industry in the PRC. We marketed our services as premium services and our Fu Shou Yuan brand allowed us to obtain a price premium over other death care services providers. Our overall gross profit margin achieved was 80.0% for the Period, slightly higher than the overall gross profit margin of 78.9% for the Same Period of last year. This was mainly due to the increased gross margin of burial services as a result of increased average selling price and effective cost control.

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

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

OTHER INCOME AND GAINS, NET

The following table sets forth a breakdown of major components of our net other income and gains for the Period:

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

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

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

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

DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

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

FINANCE COSTS

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

Interest expense on loans from non-controlling interests refers to our interest expense in connection with the shareholder's loans borrowed by our subsidiary, Shandong Fu Shou Yuan, from Shandong World Trade Centre. Shandong Fu Shou Yuan is jointly invested by our Group and Shandong World Trade Centre. Our Group and Shandong World Trade Centre jointly provide funding to Shandong Fu Shou Yuan, for its land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentage in addition to the registered capital.

INCOME TAX EXPENSE

Under the EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Period was 20.7% (the Same Period of last year: 21.0%), it was mainly because: (i) Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan, were subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions; (ii) our interest income received on bank deposits by our subsidiary in Hong Kong is free from any income tax according to the Hong Kong tax rules; and (iii) certain subsidiaries made tax reduction on exercised share options because the relevant tax authorities have agreed that the share options granted by the Company to and exercised by the employees of these subsidiaries in the PRC can form a base for claiming tax deduction in respect of the EIT of those subsidiaries.

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

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

CASH FLOW

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

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

We generated our cash from operating activities primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, selling and distribution expenses, administrative expenses and other operating expenditures. Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, finance costs, the effects of changes in working capital and taxation. Our net cash generated from operating activities amounted to RMB322.2 million for the Period, representing 52.3% increase as compared to the Same Period of last year. It mainly included the operating cash inflows before taxation and movement in working capital of RMB 414.6 million, but partially offset by (i) the increase of other working capital of RMB0.6 million; and (ii) income tax paid of RMB91.9 million.

During the Period, we generated net cash in investing activities by RMB126.6 million. It was primarily due to: (i) the redemption on maturity of time deposits of RMB182.9 million; and (ii) interest received of RMB20.7 million. It was partially offset by: (i) consideration payment of RMB30.2 million to acquire subsidiaries; and (ii) Our additions to and deposits for property and equipment of approximately RMB 46.5 million, mainly to build cemeteries and funeral facilities in Bishan District of Chongqing Municipality and Xuancheng City of Anhui Province, and also in connection with our landscape upgrade in the cemeteries we acquired recent years since IPO and decoration improvement in certain funeral facilities.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2017, we had bank balances and cash of RMB1,605.8 million (December 31, 2016: RMB1,238.9 million) and time deposits of RMB111.0 million (December 31, 2016: RMB293.9 million). In the foreseeable future, we expect to fund our capital expenditures, working capital and other capital requirements from the net proceeds from the Global Offering, cash generated from our operations, bank borrowings, and funds from other financing channels.

We had outstanding bank borrowings of RMB131.5 million as at June 30, 2017, within which there are borrowings of RMB68.5 million repayable within one year, RMB21.0 million repayable within two years, RMB20.7 million repayable within three years, RMB15.0 million repayable within four years, and RMB6.4 million repayable within five years. These borrowings were dominated in RMB and were subject to floating interest rates ranged from 4.35% to 4.998% per annum. Meanwhile, Shandong Fu Shou Yuan, one of our subsidiaries, also had an outstanding loan balance of RMB34.3 million as at June 30, 2017, with interest rate of 4.785% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre.

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

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as of June 30, 2017 was 5.1% (December 31, 2016: 5.6%). Our operation has been lightly leveraged because of our good operating cash generating capability. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not estimate our gearing ratio will substantially increase considering the bank balances and cash in hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The economic environment in which we operate is the PRC and our functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed us to foreign currency risk. As at June 30, 2017, cash and cash equivalents and time deposits held in RMB, HK$ and US$ accounted for 88.0%, 4.2% and 7.8% respectively, of the total cash and cash equivalents and time deposits. We believe the current level of bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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

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

EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2017, we had 1,815 full-time employees (December 31, 2016: 1,724 full-time employees). We offer competitive packages as well as fringe benefits to our staff, in which we also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with the necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

We had contracted but not provided in the financial statements, for the capital expenditures in respect of acquisition of subsidiaries, land, other investments, property and equipment in an amount of approximately RMB50.4 million as at June 30, 2017. We had also planned to provide approximately RMB217.3 million for the acquisition or construction of new cemeteries and funeral facilities in Xuancheng City, Tai'an City and Bishan District of Chongqing Municipality as discussed above.

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

ASSETS PLEDGED

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

CEMETERY LANDS AVAILABLE

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

When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for burial plots, such as the land areas in connection with the business centre, office building, landscaping, and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time.

CONTINGENT LIABILITIES

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

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

PROSPECTS

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company's Shares (after the exercise of the Over-allotment Option (as defined in the Prospectus)), excluding Listing related expenses, amounted to approximately HK$1,758.9 million. As of June 30, 2017, we had used approximately HK$297.8 million towards acquiring new lands, approximately HK$56.5 million to set up new funeral facilities, approximately HK$1,047.8 million for mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK$46.1 million to expand our sales network. The remaining net proceeds are intended to be applied in the manner consistent with that set out in the Prospectus and relevant announcements made afterwards.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.24 cents per Share for 2017. The interim dividend is expected to be payable to the Shareholders on or before Friday, September 22, 2017. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Monday, September 4, 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, August 31, 2017 to Monday, September 4, 2017, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, August 30, 2017.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the Period.

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

CORPORATE GOVERNANCE

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to achieving high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of opinion that the Company has complied with the code provisions as set out in the CG Code throughout the Period.

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

During the Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial report of the Group for the Period have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 — "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor will be included in the interim report of the Company to be dispatched to the Shareholders.

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

PUBLICATION OF THE CONSOLIDATED INTERIM RESULTS AND 2017 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fsygroup.com). The interim report for the six months ended June 30, 2017 will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

Definitions

"Anyang Tianshouyuan Cemetery"	a cemetery in Anyang of Henan Province and operated by Anyang Wulong Civil Service Co., Ltd.* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Audit Committee"	the audit committee of the Company
"Board" or "Board of Directors"	the board of Directors
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules

"Changzhou Qifengshan Cemetery"	a cemetery in Changzhou City of Jiangsu Province and operated by Changzhou Qifengshan International Cemetery Co., Ltd.*(常州棲鳳山國際文化陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Chongqing Anle Funeral Services"	Chongqing Anle Funeral Services Co., Ltd.* (重慶安樂殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Chongqing Anle Services"	Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Chongqing Baitayuan"	a cemetery in Yongchuan of Chongqing Municipality and operated by Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Company" or "Fu Shou Yuan"	Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands
"Director(s)"	the director(s) of the Company
"EIT Law"	the Law of the PRC on Enterprise Income Tax
"FSY Hong Kong"	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
"Global Offering" or "IPO"	the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013
"Group", "our Group", "us" or "we" or "Fu Shou Yuan Group"	the Company and its subsidiaries

"Guanlingshan Cultural Cemetery"	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Haigang Fu Shou Yuan"	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by by Shanghai Nanyuan Industrial Development Co. Ltd.*(上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company
"Hefei Dashushan Cultural Cemetery"	a cemetery in Hefei of Anhui Province and operated by Hefei Dashushan Culture Cemetery Co., Ltd.* (合肥大蜀山文化陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Henan Fu Shou Yuan"	a cemetery in Longhu Town, Zhengzhou of Henan Province (河南省新鄭市龍湖鎮) and operated by Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Huaibei Fangshan Cemetery"	A cemetery in Huaibei City of Anhui Province and operated by Huaibei Fu Shou Yuan Memorial Park Co., Ltd.* (淮北福壽園紀念陵有限責任公司), a limited company established under laws of the PRC and a joint venture of the Company
"Jinzhou Maoshan Anling"	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City MaoshanAnling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Listing"	listing of the Shares on the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
"Luoyang Xianhe Cemetery"	A cemetery in Luoyang City of Henan Province and operated by Luoyang Xianhe Memorial Cemetery Co., Ltd.* (洛陽仙鶴紀念陵園有限公司), a limited company established under the PRC and a subsidiary of the Company since January 2017
"Meilin Century Cemetery"	a cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Nanchang Hongfu"	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Period"	the six months ended June 30, 2017
"Prospectus"	the prospectus of the Company dated December 9, 2013
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Same Period of last year"	the six months ended June 30, 2016
"Shandong Fu Shou Yuan"	Shandong Fu Shou Yuan Development Co., Ltd.* (山東福壽園發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Shandong World Trade Centre"	Shandong World Trade Centre* (山東世界貿易中心), a 50% shareholder of Shandong Fu Shou Yuan
"Shanghai Fu Shou Yuan"	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company

"Share(s)"	ordinary share(s) with a nominal value of US$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on December 3, 2013
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollar"	United States dollars, the lawful currency of the United States
"Wuyuan Wanshoushan Cemetery"	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Zaozhuang Shanting Xingtai"	Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
"%"	per cent.

* Denotes English translation or transliteration of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.

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

Hong Kong, August 11, 2017

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