

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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, 2018

The Board of Directors (the “Board”) of Fu Shou Yuan International Group Limited (the “Company”) is pleased to announce the unaudited interim results of the Company for the six months ended June 30, 2018.

2018 INTERIM RESULTS HIGHLIGHTS

- Total revenue for the six months ended June 30, 2018 amounted to approximately RMB789.2 million, representing an increase of approximately 2.5% when compared to that of the six months ended June 30, 2017.
- Profit and total comprehensive income attributable to owners of the Company for the six months ended June 30, 2018 amounted to approximately RMB262.1 million, representing an increase of 14.6% when compared to that of the six months ended June 30, 2017.
- Basic earnings per Share for the six months ended June 30, 2018 amounted to approximately RMB12.0 cents, representing an increase of 11.1% when compared to that of the six months ended June 30, 2017.
- The Board has declared an interim dividend of HK3.72 cents per share for the six months ended June 30, 2018.

This announcement, containing the full text of the interim report of the Company for the six months ended 30 June 2018, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“SEHK”) in relation to information to accompany preliminary announcements of interim results.

The printed version of the Company’s 2018 interim report will be delivered to relevant shareholders of the Company and will be available for viewing on the websites of SEHK at www.hkexnews.hk and of the Company www.fsygroup.com on or around September 4, 2018.

CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	6
Other Information	20
Report on Review of Condensed Consolidated Financial Statements	26
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Condensed Consolidated Statement of Financial Position	28
Condensed Consolidated Statement of Changes In Equity	30
Condensed Consolidated Statement of Cash Flows	31
Notes to the Condensed Consolidated Financial Statements	33
Definitions and Glossary	66



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Bai Xiaojiang (*Chairman*)
Mr. Tan Leon Li-an (*Vice-Chairman*)
Mr. Wang Jisheng (*Chief Executive*)

Non-executive Directors

Mr. Ma Xiang
Mr. Lu Hesheng
Mr. Huang James Chih-cheng

Independent Non-executive Directors

Mr. Chen Qunlin
Mr. Luo Zhuping
Mr. Ho Man
Ms. Wu Jianwei

AUDIT COMMITTEE

Mr. Ho Man (*Chairman*)
Mr. Huang James Chih-cheng
Mr. Luo Zhuping

NOMINATION COMMITTEE

Mr. Bai Xiaojiang (*Chairman*)
Mr. Wang Jisheng
Mr. Chen Qunlin
Mr. Ho Man
Mr. Luo Zhuping

REMUNERATION COMMITTEE

Mr. Luo Zhuping (*Chairman*)
Mr. Tan Leon Li-an
Mr. Chen Qunlin

COMPLIANCE COMMITTEE

Ms. Wu Jianwei (*Chairman*)
Mr. Luo Zhuping
Mr. Ho Man
Mr. Chen Qunlin

COMPANY SECRETARY

Mr. Zhang Jingming⁽¹⁾
Mr. Tsoi Ka Ho⁽¹⁾

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang
Mr. Zhang Jingming⁽²⁾
Mr. Tsoi Ka Ho⁽²⁾

REGISTERED OFFICE

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

HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Notes:

- ⁽¹⁾ With effect from May 7, 2018, Mr. Tsoi Ka Ho has been appointed in place of Mr. Zhang Jingming as company secretary of the Company.
- ⁽²⁾ With effect from May 7, 2018, Mr. Tsoi Ka Ho has been appointed in place of Mr. Zhang Jingming as an authorized representative of the Company.

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu

STOCK CODE

1448

WEBSITE

<http://www.fsygroup.com>

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the results of the Company and its subsidiaries for the six months ended June 30, 2018.

In the first half of 2018, the Group's revenue amounted to RMB789.2 million, representing an increase of 2.5% compared to the same period in 2017. Profit and comprehensive income attributable to owners of the Company was RMB262.1 million, up 14.6% when compared to the same period of last year. The Board declared an interim dividend of HK3.72 cents per share to the Shareholders for their support.

During the Period, the Group kept on consolidating its core businesses and proactively adjusted its business operations which involve changes in product and service mix, sales channel, revenue contribution and financial structure from different regions. The Group thrived to expand its funeral segment and design business as to enhance the layout of the industrial chain. Our subsidiaries achieved healthy growth in the first half of 2018. The Group has actively been expanding its market reach during the Period. Currently, our cemeteries and funeral facilities cover more than 20 cities in 14 provinces, autonomous regions and municipalities in the PRC including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou and Inner Mongolia.

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

The death care service industry is facing increasing demand for its services because of urbanization, aging population and the pursuit of high quality death care services by the general public. The central government has speeded up the market-oriented reform of the death care service industry through promoting its strategy on the separation of its supervisory role from operator role. It encourages social capital to participate in selected death care services. The Group will benefit during the course of such reform. In addition, the PRC government has regulated non-compliances of the industry recently through special rectification task forces. The Group considers that such measures are conducive to the healthy development of the Group and the industry, and enhance both the operating and business environment of the Group.

The Company strongly agrees with the report delivered at the 19th National Congress of the Communist Party of China that the current divisions in society derive from the unbalance between the ever-increasing demand of a good life from the people and the shaky and incomprehensive development. The Company holds the view that the pursue Chinese people of high-quality, humane and respectable funeral services is reasonable and should be satisfied, for such services are important components of a good life. The death care service industry of China is improving, but in terms the quality of facilities, environment, products, services and staff and so on, the variations between different regions are still large. The burial and funeral facilities are still lagging behind in many regions. As such services fail to achieve its function of making people pass away respectfully with dignity, it has created a large expectation gap on the death care services between the general public and the operators in those regions. In this connection, the Chinese death care service industry does require a supply-side structural reform. The Company advocates and provides with a philosophy of "man as essential", services with rich cultural content that follow the direction of society and civilization progress. The Company is one of the best death care service enterprise in every city we have entered; we get hospitable reception from our customers and recognition from the peers and the government.

To enable more general public to use our high quality and humane death care services, we speeded up our outreach initiatives. In this connection, our coverage extended from an initial one region (i.e. Shanghai) to 14 provincial regions. At the same time, we enlarged our plan on the industry steadily chain. Our business scope has been extending steadily from burial services upon inception to five segments including burial services, funeral services, machinery, design services and pre-need services. The synergy created by each of these segments greatly enhanced our capability in providing comprehensive services to our customers.

CHAIRMAN'S STATEMENT

The Group has been active in participating in all kinds of social welfare and charitable activities since its establishment, including cultural education, disaster relief, poverty support, and environmental protection. During the Period, the Group organized jointly with several renowned higher education a series of activities in relation to life education (e.g., the Qing Ming Forum jointly organized with the Peking University). With regard to the life education and life culture exchanges, they linked our services to the education segment and expanded their contents. The exchanges, which reflected the cross-regional, cross-segmental, and diligent characteristics of a multi-cultural work of education, upgraded the burial culture to birth-death culture and then culture of life. As a result, the death care service industry is enhanced and supported by our culture.

In January 2018, Mr. Wang Jisheng, the Chief Executive of the Group, was appointed again as the vice president of the China Funeral Association. In this connection, the Group continues to bear the responsibility of promoting the development of the industry. In June 2018, Shanghai Fu Shou Yuan Humanism Memorial Museum won the award of "Pioneer Enterprise for Patriotism Education Base of Shanghai 2016-2017", while Ms. Yi Hua, the Executive Deputy Director of the Museum, was awarded the honor of "Pioneer for Patriotism Education Base of Shanghai 2016-2017". In July 2018, the Group received the award of "2018 Influential Brand of the Industry" in the 7th China Finance Summit. During the Period, the Group received 13 honours including 4 at State level, 7 at provincial level and 2 at local level. The honours were granted to the Group, its subsidiaries and its employees, either as a group or individual. This reflects that the Group has made great achievement and progress in various aspects such as brand, charity, culture, education, technology, and are widely recognized by different sectors of the society. It is worth noting that our environmental-friendly cremation machines has obtained an invention patent from the State Bureau Intellectual Property in June 2018.

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 service 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.

Looking forward, the Group will continue to focus on our core business and to explore new businesses. The Group respects the balance of man and nature, maintains sustainable development, and undertakes responsibilities of enterprise, society, industry, history, and the public. We thrive to maximize both corporate values and Shareholders' benefits.

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

Hong Kong, August 24, 2018

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 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 in the future. 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.

Recently, the nine Ministries of the State have organized a task force to rectify the death care service industry. The task force scrutinized the industry from different angles and rectify non-compliances. The rectification prepared for the amendment of relevant rules and regulations. The Company realizes that the rectification is beneficial to the long-term development of the death care service industry. As a public company bearing great social responsibility, we are one of the most law-abiding companies in the industry. We believe, the rectification will provide the Company a competitive environment that is beneficial to us and room for sustainable development.

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

BUSINESS COMMENTARY

During the Period, the Group as always continued to 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. In addition, our brand value has been constantly consolidated and explored.

The Group has proactively been adjusting its operations, product and service mix, sales channel, and revenue contribution from different regions during the Period. Such adjustments optimized our operations, enlarged the business scope of our funeral services, enhanced our industry chain and our landscape design capability. The synergy created by each segment greatly enhanced customer experiences and our capability in providing comprehensive services to our customers. Although such adjustments caused changes in sales volume, ASP and revenue during the Period, we consider that they are essential to prepare the Group for a sustainable and healthy development.

During the Period, the Group actively expanded its market reach. Business in the provinces where we already had coverage before the Period has been continuously consolidated. With the help of brand advantage, satisfactory public praise and government's recognition, we were given more opportunities to expand our market reach. Currently, our business covers more than 20 cities in 14 provinces, autonomous regions and municipalities in the PRC including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou and Inner Mongolia. As at June 30, 2018, we have 20 cemeteries and 20 funeral facilities in operation. During the Period, the efficiency of the following construction projects have been increased and significant progress have been achieved: (i) The construction work of the cemeteries and funeral facilities in Bishan District, Chongqing Municipality was completed and operation of the facilities commenced. As the integrate project providing both funeral and burial services in southwest China, it has improved the layout of our industry chain in that area and brought about good economic and social benefits. (ii) A new funeral parlor in Xuancheng City, Anhui Province also commenced operation. It helped enhance the overall service quality of local funeral parlors, and received appreciation from customers and the local government. (iii) Construction work of Dafeng and Gaoyou projects were proceeding according to the plan.

MANAGEMENT DISCUSSION AND ANALYSIS

In February 2018, we acquired additional 20% equity interest in Liaoning Guanlingshan Cultural Cemetery bringing our total equity interest in the cemetery to 90%. In May 2018, the Group acquired 100% of equity interest in Chaoyang Longshan Cemetery in Liaoning Province, acquired 80% equity interest in Guizhou Tianyuanshan in Guizhou Province. Tianyuanshan project is the only integrated death care service project in Zheng'an which establishes its leading position in local market. The project is our first step as well as the footstone for further development in Guizhou Province. In May 2018, the Group also started the first phase of acquisition of 100% equity interest in Helinge'er Anyou Cemetery in Inner Mongolia. Helinge'er Anyou cemetery, which mainly serves the market of capital city Hohhot, is a strategic pivot to support our future development in Inner Mongolia. In June 2018, we started the procedure of acquiring additional 25% equity interest in Wuyuan Wanshoushan Cemetery in Jiangxi Province. The cemetery will become our wholly-owned entity upon completion of the transaction. During the Period, we also won in a bid to provide funeral services for ten years in a government owned funeral parlor in Xiaoshan District, Hangzhou City of Zhejiang Province, representing our competitiveness towards government funeral procurement projects. In addition, the Group achieved several PPP funeral service projects in various stages for local governments in Fenghua County of Zhejiang Province, Kunshan City of Jiangsu Province, Jintan City of Jiangsu Province, and Yanshan County of Jiangxi Province. In July 2018, the Group signed an investing agreement to acquire 10% equity interest of a cemetery in Changchun City of Jilin Province. With the continuous expansion, the number of customers we served each year has doubled since the Group was listed. Such increase provides us with more opportunities to well serve a broader group of people and continuous motivation for revenue and profit growth. It will also effectively help the industry enhance overall death care service quality in China.

The Group promoted pre-need contract for funeral services and made impressive achievements during the Period. As of June 30, 2018, the Group has offered pre-need contract for funeral services in eight provinces, municipalities and autonomous regions covering 15 cities. We signed 902 contracts during the Period, representing an increase of 60.5% when compared to the same period of last year (the same period of last year: 562 contracts). Based on more than twenty years experiences on death care services and our knowledge regarding local customs and customer needs in different places, we kept upgrading the funeral service mix, and put together an open, transparent and standard service contract. We established Fu Shou Home Life Care Community Service Centre. We participated in community activities and provided community services to the elderly and their families regarding legal support, psychological aid, palliative care, etc. We also prepared pre-need funeral solution to settle the farewell ceremonies for the weak groups who rely on government compensation for living. Such solution was much appreciated by the weak group and brought us a purchase order from the government. 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. It occurs to us that pre-need service were able to secure customers in advance and to bring about a stable source of customers to funeral and burial segments. Meanwhile, we believe that, under the backdrop of aging population with fewer children, pre-need services will appeal more customers who would like to arrange their funeral matters in advance by themselves. The Group will actively explore more social value and business value of pre-need services.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, our environment-friendly cremation machines obtained an invention patent issued by the State. We installed four sets of new cremation machines in the Group's funeral parlors (a total of 13 cremation machines have been installed in our Group). Although cremation machine business did not contribute any external sales revenue during the Period, those cremation machines that had been installed and sold to external parties were all operating smoothly with exhaust gases complying with environmental standard. In June 2018, we won a bid to supply eight sets of cremation machine to a state-owned funeral parlor in Wuhan City of Hubei Province. We expect that the environmental-friendly cremation machine business will have considerable contribution to the Group's revenue in the foreseeable future.

Our employees are our most valuable resources. Having developed for many years, we have gathered in our Group talents of the death care service industry and continuously attracted external talents to join us. As a result, we has built up a well-balanced in terms of age and professional death care service team. This team, which bears the Group's concept, works diligently at each of our operating location. Through their effort, the Group is able to invent new products, enhance service quality, expand its business, and then offer more value-added services to our customers. We strive to preach and implement the advanced international funeral concepts. The Group's "Culture and Education Committee" and "Fu Shou Yuan Life Service College" continued to train and build up a pool of professionals for future business expansion during the Period. The College expanded the scope of its training courses through an introduction of high quality overseas training resources. It also reached an intent with NFDA of the United States on a preliminary exchange of training resources. Such exchange helps promote the Group's death care training courses overseas and enhance the overall standards of the industry domestically.

During the Period, we kept on enhancing our management on standardization, information technology, operation segments, budgetary control and internal control. In addition, we monitor closely our operations to support the Group's expansion and to increase its operating efficiency. As a result, our operation efficiency has materially improved. The operation expense ratio has been decreasing and the operation risks have been under effective control during the Period.

As a result of all the above proactive adjustments and arrangements, we achieved positive growth despite a slowdown of China's economy. The Group's revenue amounted to RMB789.2 million, representing an increase of 2.5% when compared to the same period in 2017. However, we achieved Profit and comprehensive income attributable to owners of the Company of RMB262.1 million during the Period, up 14.6% when compared to the same period of last year. We believe that the impact from the above proactive adjustments has prepared the Group for its sustainable and healthy development in the foreseeable future.

CHANGE IN PRESENTATION METHOD OF EXPENSES RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

There has been a change in the presentation method of expenses recognized in the statement of profit or loss and other comprehensive income in 2018. The Group has adopted the "nature of expense" method starting from 2018 while it adopted the "function of expense" method in preceding years.

Under the "nature of expense" method, an entity aggregates expenses within profit or loss according to their nature (e.g. staff costs, material consumed, marketing and sales channel costs, depreciation and amortisation). Under the "function of expense" method, an entity classifies expenses according to their function as part of cost of sales or for example, the costs of distribution or administrative activities.

MANAGEMENT DISCUSSION AND ANALYSIS

The main reason for the above change in the presentation method is that management of the Group considers its principal business is provision of death care services to its customers as a leading service provider of death care services in the PRC. The “nature of expense” method can provide information that is more reliable and relevant under the existing business model of the Group.

Set out below are major matters that management has considered in making the above decision:

- (i) To present expenses using “nature of expense” method can better depict the characteristic of the Group, which is the provision of services instead of the selling of goods in the burial and funeral service industry; and
- (ii) To present expenses by their nature is more transparent and beneficial for investors to understand the businesses of the Group.

Such change in presentation does not change the Group’s final operating results.

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, 2018		June 30, 2017	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Burial services	687,977	87.2%	694,386	90.2%
Funeral services	91,777	11.6%	73,879	9.6%
Other services	15,914	2.0%	4,962	0.6%
Inter-segment elimination	(6,453)	(0.8%)	(2,982)	(0.4%)
Total	789,215	100.0%	770,245	100.0%

The Group has proactively been optimizing its sales channel and adjusting its product and service mix during the Period. In addition, the Group has been adjusting its operations in such a way that it can achieve a more even contribution of revenue from each region. All these adjustments caused changes in revenue, sales volume and ASP during the Period. We consider these adjustments are essential and prepare the Group for sustainable and healthy development in coming years.

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, 2018		June 30, 2017	
	No. of plots	Revenue (RMB'000)	No. of plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	6,214	624,404	6,750	633,718
Public welfare plots and tomb relocation	1,409	4,252	3,325	3,078
	<u>7,623</u>	<u>628,656</u>	<u>10,075</u>	<u>636,796</u>
Other burial services		<u>59,321</u>		<u>57,590</u>
Total revenue from burial services	<u>7,623</u>	<u>687,977</u>	<u>10,075</u>	<u>694,386</u>

The ASP of ordinary business plots increased by 7.0% when compared to that of the same period of last year. Such increase was attributable to our enhanced value-added services which included increasing service quality, expanding service scope, and enhancing cultural values of our services. All these enhanced our value-added services which was demonstrated by higher prices.

The total number of ordinary burial plots sold declined during the Period when compared to that of the same period of last year mainly due to our proactive adjustment of our operations to achieve a more even contribution of revenue from different regions. The adjustment involved changes in product mix and sales channel which increased: (i) the number of small burial plots sold; (ii) the number of artistic burial plots sold while reducing the number of traditional burial plots sold; and (iii) the revenue contribution from our own sales teams. All these changes further enhanced our comprehensive services and satisfaction from our customers. These changes are also beneficial to the healthy development of the Group in the long run. As a result of this adjustment, the number of burial plots sold in Shanghai region, the largest region in terms of revenue contribution, experienced a temporary decline during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the contribution of revenue from our new (i.e. those related to acquisitions/new construction) and old (i.e. comparable cemeteries) cemeteries:

	Six Months Ended			
	June 30, 2018		June 30, 2017	
	No. of plots	Revenue (RMB'000)	No. of plots	Revenue (RMB'000)
Sale of burial plots services for ordinary business purpose, from:				
Comparable cemeteries*	5,752	605,127	6,750	633,718
Cemeteries related to acquisitions/new construction	462	19,277	—	—
Total revenue from sale of burial plots for ordinary purpose	6,214	624,404	6,750	633,718

* Comparable cemeteries refer to those cemetery locations owned by the Group for the entire period from January 1, 2017 to June 30, 2018.

The ASP of the burial plots sold for ordinary business purpose in the new cemeteries was much lower than those in the old ones as these new cemeteries need time to improve their landscape, services, team and management, in order to provide high quality services to their customers and to increase the return of the Group. We designed systematic operation improvement plan for these new projects to ensure the achievement of the above goals.

FUNERAL SERVICES

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

	Six Months Ended			
	June 30, 2018		June 30, 2017	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	9,556	80,617	9,010	73,879
Facilities related to acquisitions/new construction	5,573	11,160	—	—
Total revenue from funeral services	15,129	91,777	9,010	73,879

* Comparable facilities refer to those funeral facility locations owned by the Group for the entire period from January 1, 2017 to June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue from funeral services increased by RMB17.9 million, or 24.2% to RMB91.8 million for the Period from RMB73.9 million for the same period of last year. Such increase was mainly due to an increase in business activities in our old facilities and provision of funeral services by our new funeral facilities in certain cities starting from the second half of last year. It is worth noting that both the ASP and sales volume derived from the old facilities increased during the Period. The ASP of our funeral services in these new funeral facilities was lower than that of the old ones. As most of these newly acquired funeral facilities offered only basic services to their customers before our acquisition. These funeral facilities will provide high quality services to its customers through introduction of new management and a variety of humanized funeral services after our acquisition. With the increased service items, improved service quality and values, and enhancement of marketing activities, the Group's revenue has much room to grow.

GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities are strategically located in major cities across 13 provinces, municipalities and autonomous regions in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region:

	Six Months Ended			
	June 30, 2018		June 30, 2017	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai	395,063	50.7%	421,605	54.9%
Henan	51,974	6.7%	40,992	5.3%
Chongqing	37,775	4.8%	35,210	4.6%
Anhui	78,062	10.0%	68,307	8.9%
Shandong	34,681	4.4%	27,890	3.6%
Liaoning	89,856	11.5%	96,732	12.6%
Jiangxi	25,185	3.2%	20,378	2.7%
Fujian	19,975	2.6%	15,988	2.1%
Zhejiang	6,816	0.9%	3,965	0.5%
Jiangsu	32,523	4.2%	37,198	4.8%
Guangxi	5,485	0.7%	—	—
Inner Mongolia	1,065	0.1%	—	—
Guizhou	1,294	0.2%	—	—
Total	779,754	100.0%	768,265	100.0%

Revenue in most regions increased during the Period mainly because of contributions from newly acquired and operated funeral facilities, new cemeteries, and the growth in business activities in those regions.

The revenue decline in Shanghai region during the Period was mainly due to our proactive adjustment of our operations to achieve a more even contribution of revenue from different regions. The adjustment involved optimization in sales channel and product mix. We consider that the adjustment is essential and ensure healthy and sustainable development of Shanghai region in future. We also expect that revenue from Shanghai region will recover after the adjustment.

MANAGEMENT DISCUSSION AND ANALYSIS

Liaoning region was in the process of optimizing products mix, improving operation efficiency and controlling operating expenditure during the Period. In addition, we have been optimizing the sales channel of the region to enhance the revenue contribution from our own sales teams. The profit margin of Liaoning region improved despite a decline in revenue during the Period.

OTHER SERVICES

Revenue from other services for the Period mainly represented the revenue generated from our professional design services offered to cemeteries and funeral parlors throughout PRC. During the Period, we recorded revenue from design services of RMB15.9 million. We acquired a subsidiary specialized in providing design services in August 2017. The subsidiary improves our business chain in the death-care industry and effectively support the growth of our other segments.

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 53.0% of our total revenue for the Period (same period of last year: 54.1%), slightly increased by RMB1.3 million, or 0.3%, to RMB418.2 million from RMB416.9 million for the same period of last year. The slight increase in operating expenditure can be attributable to an increase in various operating expenses of RMB27.5 million arising from new acquisitions during the Period. Such increase in operating expenditure however was substantially offset by a decrease in various operating expenses of RMB26.2 million from organic business as a result of optimization of business operations, effective cost control and a temporary decline in the number of burial plots sold in certain areas.

The Group's staff costs include staff salaries, bonuses, benefits and amortization of share option cost. Staff costs increased by RMB4.9 million, or 2.8% to RMB176.6 million for the Period from RMB171.8 million for the same period of last year. The increase was mainly due to an increase in the number of employees due to expansion of the Group's business activities, which was partially offset by a decrease in the amortization of share option cost by RMB3.7 million upon expiry of vesting periods for certain share options.

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 our burial plots and cremation machines. The consumed materials and goods decreased by RMB2.3 million, or 3.9% to RMB58.4 million for the Period from RMB60.7 million for the same period of last year. Such decrease was mainly due to the decrease in the number of burial plots sold during the Period.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. The marketing and sales channel costs decreased by RMB12.6 million, or 29.6% to RMB30.1 million for the Period from RMB42.7 million for the same period of last year. Such decrease was mainly due to the optimization of our sales channel in certain regions, aiming at enhancing the revenue contribution percentage from our own sales teams and thus improving the quality of our service to customers and reducing the use of external sales agents.

Depreciation and amortization increased by RMB7.1 million, or 17.5% to RMB47.8 million for the Period from RMB40.7 million for the same period of last year mainly because certain new cemeteries and funeral facilities commenced operation starting from the second half of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing, our operating profit increased by RMB17.6 million, or 5.0%, to RMB371.0 million for the Period from RMB353.4 million for 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, 2018		June 30, 2017	
	Operating Profit (RMB'000)	Operating Profit Margin (%)	Operating Profit (RMB'000)	Operating Profit Margin (%)
Burial services	368,807	53.6%	348,882	50.2%
Funeral services	6,086	6.6%	10,484	14.2%
Other services	(3,072)	(19.3%)	(5,426)	(109.4%)
Inter-segment elimination	(786)		(572)	
Total	371,035	47.0%	353,368	45.9%

The operating profit margin of burial services increased to 53.6% for the Period from 50.2% for the same period of last year mainly because the ASP of burial plots sold increased and cost control was effective during the Period.

The new funeral facilities contributed the majority of the revenue growth from funeral services during the Period. These new facilities provide both basic funeral services and value-added funeral services. As most of these new funeral facilities are still in their initial stage of development, it takes time for them to steadily enhance their services and for their customers to know and then purchase their value-added services. Therefore, the profitability of funeral facilities was dragged down by the new ones. As a result, the operating profit margin of funeral service segment decreased to 6.6% for the Period from 14.2% for the same period of last year. We expect that these new funeral facilities will increase their ASP, sales volume and profitability in future.

The operating profit and operating margin of other service segment showed some improvement during the Period when compared to those in the same period of last year although they remained negative during the Period. The improvement was due to the contribution by the newly acquired subsidiary which offered design services starting from the second half of last year. The operating loss in other service segment was mainly attributable to the operating costs incurred for cremation machines during the trial sale period. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening the rules and regulations on environmental protection by the government.

FINANCE COSTS

Finance costs for the Period consisted of interest expenses of RMB2.5 million on bank loans (the same period of last year: RMB3.2 million), and interest expenses of RMB1.6 million (the same period of last year: RMB0.8 million) on loans from non-controlling shareholders of our subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME, GAINS AND LOSSES

Our interest income increased by RMB6.3 million to RMB25.2 million for the Period from RMB18.9 million for the same period of last year, mainly due to higher average bank balances, and more effective cash management.

We received government grants of RMB5.8 million during the Period. The grants represented unconditional subsidies from a local government to encourage and reward our contribution to the local community.

We recorded an exchange gain of RMB1.2 million derived from our bank deposits denominated in USD and HKD during the Period. Such gain was mainly due to an appreciation of USD and HKD against RMB during the Period.

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 17.5% (the same period of last year: 20.7%). The difference between the standard tax rate of 25% and the effective tax rate of 17.5% 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) our interest income earned from bank deposits placed in Hong Kong is free from any income tax according relevant to Hong Kong tax rules; (iii) certain subsidiaries enjoy a tax deduction on exercise of share options by their employees according to agreements between those subsidiaries with relevant tax authorities; and (iv) the Group reverses certain prior year tax provisions when tax uncertainties on such provisions have been resolved.

The income tax expenses decreased by RMB7.5 million, or 9.8%, to RMB69.8 million for the Period from RMB77.3 million for the same period of last year, mainly due to the combined effects of the above factors during the Period.

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 RMB33.3 million, or 14.6%, to RMB262.1 million for the Period from RMB228.8 million for the same period of last year. This increase during the Period was primarily due to: (i) the growth of our total revenue by 2.5% attributable to both the funeral services and other services segments; (ii) the effective cost controls resulting in higher operating profit margin and improved cash management; and (iii) the decrease in the effective corporate income tax rate.

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, 2018 (RMB'000)	June 30, 2017 (RMB'000)
Net cash generated from (used in)		
— operating activities	304,003*	322,150
— investing activities	(805,146)*	126,634
— financing activities	(17,780)	(81,841)
Total	(518,923)	366,943

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

We generated our cash from operating activities primarily from proceeds of our death care service businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, and other operating expenditures. Our net cash 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 RMB304.0 million for the Period. It mainly included the operating cash inflows before movement in working capital of RMB439.4 million, but partially offset by: (i) an increase in other working capital of RMB39.6 million; and (ii) income tax paid of RMB95.8 million.

During the Period, we used net cash of RMB805.1 million in investing activities. It was primarily due to: (i) placement of time deposits and other financial assets of RMB441.8 million; (ii) payment of RMB223.8 million to acquire subsidiaries and other investments; (iii) payment of RMB100.5 million to acquire land use rights; and (iv) payment of RMB27.7 million to build new burial and funeral facilities in Bishan District of Chongqing Municipality, Xuancheng City of Anhui Province, and Zheng'an County, Zunyi City of Guizhou Province, and payment of RMB22.9 million in connection with our landscape upgrade in the other cemeteries. Such cash outflows was partially offset by interest received of RMB18.8 million.

Our net cash used in financing activities amounted to RMB17.8 million for the Period. It was primarily due to: (i) final dividends for 2017 paid to shareholders of the Company of RMB58.0 million, (ii) dividends paid to minority shareholders of RMB78.2 million, (iii) net decrease of bank loans of RMB18.0 million, and (iv) interest payment of RMB10.9 million for our borrowings. These cash outflows were partially offset by: (i) the proceeds of RMB126.7 million received upon exercise of share options by our employees; and (ii) the capital and loan contribution from the non-controlling shareholders of certain of our non-wholly owned subsidiaries totaled at RMB20.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2018, we had bank balances and cash of RMB1,418 million (December 31, 2017: RMB1,937 million), time deposits of RMB360.2 million (December 31, 2017: RMB10.0 million) and financial assets of RMB91.6 million (December 31, 2017: NIL). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

We had outstanding bank borrowings of RMB95.0 million as at June 30, 2018. Of this outstanding balance, RMB53.0 million is repayable within one year, RMB20.7 million is repayable within two years, RMB15.0 million is repayable within three years, and RMB6.4 million is repayable within four years. These borrowings were dominated in RMB and were subject to floating interest rates ranging from 4.35% to 4.998% per annum. As at June 30, 2018, the Group had a loan of RMB34.1 million due to the non-controlling shareholder of a non-wholly owned subsidiary. The interest rate of the loan was 5.655% per annum and the loan did not have a repayment schedule. The Group also had another loan of RMB27.0 million due to the non-controlling shareholder of another non-wholly owned subsidiary. Such loan is repayable within one year with interest rate at 4.35% per annum.

In addition, we had an undrawn bank borrowing facilities of approximately RMB1,537 million as at June 30, 2018. In addition, we had another bank borrowing facility of approximately RMB800 million under renewal as at June 30, 2018.

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, 2018 was 4.1% (December 31, 2017: 4.6%). Our operation has been lightly leveraged because of our good cash generating capability in 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 bank material balances and cash in 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, 2018, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 94.0%, 4.3% and 1.7% respectively, of the total amount of these assets. 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 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

In 2018, we signed an agreement to acquire additional 20% equity interest in Guanlingshan Cultural Cemetery, one of our non-wholly owned subsidiaries, at a consideration of RMB120.0 million. Such transaction was completed in March 2018. Upon completion of the transaction, our equity interest in Guanlingshan Cultural Cemetery increased to 90%. For details, please refer to our announcement dated 12 February 2018.

In May 2018, we completed a transaction to acquire 100% equity interest in Chaoyang Longshan Cemetery at a consideration of RMB28.6 million and any taxes incurred during the transaction. Chaoyang Longshan Cemetery mainly provides burial services in Chaoyang City of Liaoning Province.

In May 2018, we signed an agreement in which we shall acquire 100% of equity interest of Helinge'er Anyou Cemetery by phases at a total consideration of RMB108 million and any taxes incurred during the transaction. Up to present, we have contributed capital of RMB59.9 million and acquired its 60% equity interest the first phase of acquisition as of 30 June 2018. Helinge'er Anyou Cemetery mainly provides burial services in the Hohhot City of the Inner Mongolia Autonomous Region. For details, please refer to our announcement dated 4 May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In May 2018, we acquired 80% equity interest in Guizhou Tianyuanshan at a consideration of RMB41.8 million. We will further contribute additional capital of RMB30.2 million into Guizhou Tianyuanshan to fund its capital expenditure. Guizhou Tianyuanshan holds the only permission from the local government to build and operate a funeral parlor and cemetery in Zheng'an County, Zunyi City of Guizhou Province, under the "BOT" model. The authorized operation period is 40 years starting from June 30, 2017.

In June 2018, we acquired an additional 25% equity interest in Wuyuan Wanshoushan Cemetery, one of our non-wholly owned subsidiaries at a consideration of RMB4.5 million through an auction. We were still in the process of completing the shareholding transfer procedures as at the Period end date.

EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2018, we had 2,170 full-time employees (December 31, 2017: 1,836). We offer competitive packages as well as fringe benefits to our staff. We also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of acquisition of subsidiaries, land use rights, other investments, cemetery assets and property and equipment in a total amount of approximately RMB102.0 million as at June 30, 2018. We also planned to provide approximately RMB290 million for the construction of new cemeteries and funeral facilities in Xuancheng City, Tai'an City and Nanchang City.

We expect our capital expenditure in the second half of 2018 and afterwards will maintain at a relatively high level as we are actively seeking for industry consolidation opportunities and are approached by many potential target entities.

ASSETS PLEDGED

As at June 30, 2018, we pledged 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 these items, no other assets of the Group were pledged or charged.

AREA FOR BURIAL PLOTS

Our total saleable area for burial plots was approximately 2.17 million sq.m. as at June 30, 2018 (December 31, 2017: approximately 1.96 million sq.m.), which is sufficient to accommodate future business in long term. 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 business center, 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 disclosed in our announcements dated January 23, 2017 and January 8, 2016, one of our indirect and non-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 end of year 2017. As of June 30, 2018, there were two lawsuits still outstanding with claims totaling approximately RMB40.8 million (including claimed principals and contingent interests).

MANAGEMENT DISCUSSION AND ANALYSIS

There has been no notifiable progress on these two lawsuits during the Period. Their status remains substantially unchanged from our latest announcement on the matter.

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, 2018, after taking into account of the legal opinion and the current status of the proceedings and investigation, the Directors were of the view that the proceedings would in the end result in a material adverse impact on the financial position and business operation of the Group was not probable and concluded that no provision should necessarily be made. However, given the nature of the proceedings, it would be impossible to predict the outcome of the proceedings with a sufficient degree of certainty.

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, 2018, we had used approximately HK\$334.2 million towards acquiring new land use rights, approximately HK\$123.0 million to set up new funeral facilities, approximately HK\$1,255.6 million for mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK\$46.1 million to expand our sales network. The proceeds were used up in the manner consistent with that set out in the Prospectus and relevant announcements made afterwards. There will be no further update on the use of net proceeds from the Global Offering in future announcements and reports.

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 and business chain perfecting, 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 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 and the scale of professional design business. Last but not least, while promote growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business in 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, 2018, 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	4.38%
	Beneficial owner	Long position	6,953,452	0.32%
Mr. WANG Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.38%
	Beneficial owner	Long position	6,953,452	0.32%
Mr. TAN Leon Li-an	Beneficial owner	Long position	400,000	0.02%
Mr. LU Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.25%

Notes:

1. Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch Limited, which in turn is interested in approximately 4.38% 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.
2. Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field Limited, which in turn is interested in approximately 4.38% 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.
3. Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire Limited, which in turn is interested in approximately 1.25% of the issued share capital of the Company.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on December 3, 2013 and shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Board. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Share Option Scheme, the Board may offer to grant an option to any directors or employees, or any advisors, consultants, suppliers, customers or Shareholders of any members of the Group.

OTHER INFORMATION

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme during the six months ended June 30, 2018:

Name of Grantees	Date of grant	Exercise price per Share (HK\$)	Closing price per Share immediately before the date of grant (HK\$)	Options outstanding balance as at January 1, 2018	Options Granted during the six months ended June 30, 2018	Options exercised during the six months ended June 30, 2018	Options lapsed during the six months ended June 30, 2018	Options cancelled during the six months ended June 30, 2018	Options outstanding as at June 30, 2018	Exercisable period
<i>Directors</i>										
Bai Xiaojiang	August 5, 2014	4.14	4.01	—	—	—	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020
Tan Leon Li-an	March 20, 2017	4.850	4.82	5,000,000	—	—	—	—	5,000,000	March 20, 2019 to March 19, 2021
	August 5, 2014	4.14	4.01	400,000	—	400,000 ¹	—	—	—	August 5, 2016 to August 4, 2024
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
Wang Jisheng	August 5, 2014	4.14	4.01	—	—	—	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020
Ma Xiang	March 20, 2017	4.850	4.82	5,000,000	—	—	—	—	5,000,000	March 20, 2019 to March 19, 2021
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
	August 5, 2014	4.14	4.01	400,000	—	400,000 ²	—	—	—	August 5, 2016 to August 4, 2024
Lu Hesheng	March 19, 2015	3.126	3.16	500,000	—	—	—	—	500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	500,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	500,000	—	—	—	—	500,000	March 20, 2019 to March 19, 2021
	August 5, 2014	4.14	4.01	400,000	—	—	—	—	400,000	August 5, 2016 to August 4, 2024
Chen Qunlin	August 5, 2014	4.14	4.01	200,000	—	200,000 ²	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Luo Zhuping	August 5, 2014	4.14	4.01	200,000	—	200,000 ²	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Ho Man	August 5, 2014	4.14	4.01	200,000	—	200,000 ²	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Wu Jianwei	August 5, 2014	4.14	4.01	200,000	—	200,000 ²	—	—	—	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	—	—	—	—	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	—	—	—	—	300,000	March 20, 2019 to March 19, 2021
Other employees of the Group (in aggregate)	August 5, 2014	4.14	4.01	16,879,000	—	16,699,000 ³	—	—	180,000	August 5, 2016 to August 4, 2018
	March 19, 2015	3.126	3.16	35,673,000	—	18,502,000 ⁴	—	—	17,171,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	41,300,000	—	3,910,000 ⁵	—	—	37,390,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	38,300,000	—	—	—	—	38,300,000	March 20, 2019 to March 19, 2021
Total				159,252,000	—	40,711,000	—	—	118,541,000	

OTHER INFORMATION

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$8.95.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$8.74.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.67.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$8.05.

Note 5: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$8.04.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2018.

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

During the six months ended June 30, 2018, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

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

As at June 30, 2018, so far as the Directors or the chief executive were aware, the Shareholders, other than the Directors or chief executive of the Company, who had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
FSG Holding	Beneficial owner	Long position	388,318,000	17.61%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	388,318,000	17.61%
Perfect Score	Beneficial owner	Long position	483,000,000	21.90%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	21.90%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	21.90%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	21.90%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	21.90%
UBS Trustees (BVI) Limited	Trustee	Long position	193,200,000	8.76%
Double Riches	Beneficial owner	Long position	119,445,000	5.42%
Ge Qiansong	Interest in a controlled corporation (Note 6)	Long position	119,445,000	5.42%
Sunshine Life Insurance Co., Ltd* (陽光人壽保險股份有限公司)	Beneficial owner (Note 7)	Long position	151,482,000	6.87%
Sunshine Insurance Group Co., Ltd* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 7)	Long position	151,482,000	6.87%

* For identification purpose only

OTHER INFORMATION

Notes:

1. Mr. Tan Tize Shune (also known as “Tan Chih Chun”), the father of Tan Leon Li-an, is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of FSG Holding through (i) being a settlor of a trust, which in turn is interested in the entire issued share capital of Pacific Millennium Investment Corporation, the largest shareholder of FSG Holding; and (ii) being a settlor of another trust, which in turn is interested in the entire issued share capital of Fast Answer Limited, the third largest shareholder of FSG Holding. Together, Mr. Tan Tize Shune is interested in an aggregate of 48.15% of the issued share capital of FSG Holding. Accordingly, Mr. Tan Tize Shune is deemed or taken to be interested in approximately 17.61% 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 21.90% 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 21.90% 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 21.90% 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 21.90% of the issued share capital of the Company in which Perfect Score is interested in.
6. Ge Qiansong is interested in approximately 34.66% of the issued share capital of Double Riches and therefore Ge Qiansong is deemed or taken to be interested in approximately 5.42% of the issued share capital of the Company in which Double Riches is interested in.
7. Sunshine Insurance Group Co., Ltd is interested in approximately 99.99% of the issued share capital of Sunshine Life Insurance Co., Ltd and therefore Sunshine Insurance Group Co., Ltd is deemed or taken to be interested in approximately 6.87% 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, 2018, 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, 2018.

No incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended June 30, 2018.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

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

OTHER INFORMATION

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.72 cents per Share for the six months ended June 30, 2018 (2017: HK3.24 cents per Share). The interim dividend is expected to be payable to the Shareholders on or before Friday, September 28, 2018. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Monday, September 10, 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, September 6, 2018 to Monday, September 10, 2018, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, September 5, 2018.

CORPORATE GOVERNANCE

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to achieving high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of opinion that the Company has complied with the code provisions as set out in the CG Code throughout the six months ended June 30, 2018.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2018 has been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 – "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor will be included in the Interim Report of the Company to be despatched to the Shareholders.

The Audit Committee of the Company, comprising two independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee) and Mr. Luo Zhuping, and one non-executive Director, namely, Mr. Huang James Chih-cheng, has reviewed together with the management the accounting principles and policies adopted by the Group, and the Group's unaudited interim results for the six months ended June 30, 2018.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fu Shou Yuan International Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 27 to 65, which comprise the condensed consolidated statement of financial position as of June 30, 2018 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 24, 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2018

		For the six months ended June 30	
	NOTES	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	5	789,215	770,245
Operating expenditures			
Staff costs		(176,627)	(171,761)
Construction costs		(24,238)	(22,594)
Consumed materials and goods		(58,380)	(60,722)
Outsourced service costs		(24,292)	(22,936)
Marketing and sales channel costs		(30,057)	(42,680)
Depreciation and amortisation		(47,793)	(40,665)
Other general operating expenses		(59,347)	(56,343)
Inventory changes		2,554	824
Profit from operations		371,035	353,368
Finance costs	6	(4,090)	(4,000)
Share of profit of a joint venture		—	398
Other income, gains and losses			
Interest incomes		25,170	18,854
Government grants		5,829	5,506
Exchange gains (losses)		1,219	(1,831)
Others		(1,043)	1,252
Profit before taxation	7	398,120	373,547
Income tax expenses	8	(69,802)	(77,347)
Profit and total comprehensive income for the period		328,318	296,200
Profit and total comprehensive income attributable to:			
Owners of the Company		262,088	228,757
Non-controlling interests		66,230	67,443
		328,318	296,200
		RMB cents	RMB cents
Earnings per share — Basic	10	12.0	10.8
— Diluted	10	11.7	10.6

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2018

	NOTES	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Non-current assets			
Property and equipment	11	530,385	478,753
Prepaid lease payments		27,430	20,016
Investment property		6,509	6,509
Intangible assets		19,368	17,198
Goodwill	12	428,021	360,274
Deposits paid for acquisition of land use rights		108,992	16,160
Cemetery assets	13	1,326,754	1,244,821
Investment in an associate		750	—
Restricted deposits	14	42,324	38,750
Deferred tax assets	15	41,284	38,039
Other long-term assets		26,045	20,835
		2,557,862	2,241,355
Current assets			
Inventories	16	449,250	426,381
Trade and other receivables	17	65,701	47,307
Financial assets at fair value through profit or loss	18	91,618	—
Time deposits	19	360,218	10,000
Bank balances and cash	20	1,418,069	1,936,992
		2,384,856	2,420,680
Current liabilities			
Trade and other payables	21	409,104	390,895
Deferred income	23	—	22,617
Contract liabilities	23	25,270	—
Loan from non-controlling shareholders of subsidiaries	29	27,617	10,039
Income tax liabilities		100,377	120,544
Borrowings	22	53,000	60,500
		615,368	604,595
Net current assets		1,769,488	1,816,085
Total assets less current liabilities		4,327,350	4,057,440

(Continued)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2018

	NOTES	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Non-current liabilities			
Deferred income	23	—	258,564
Contract liabilities	23	284,914	—
Other long-term liabilities		13,593	13,593
Loan from non-controlling shareholders of subsidiaries	29	34,083	41,525
Borrowings	22	42,020	52,520
Deferred tax liabilities	15	97,573	86,734
		<u>472,183</u>	<u>452,936</u>
Net assets		<u>3,855,167</u>	<u>3,604,504</u>
Capital and reserves			
Share capital	24	134,256	131,666
Reserves		<u>3,180,331</u>	<u>2,886,497</u>
Equity attributable to owners of the Company		3,314,587	3,018,163
Non-controlling interests		<u>540,580</u>	<u>586,341</u>
Total equity		<u>3,855,167</u>	<u>3,604,504</u>

The condensed consolidated financial statements on page 27 to 65 were approved and authorized for issue by the Board of Directors on August 24, 2018 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, 2018

	Share capital 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, 2017 (Audited)	127,470	1,123,394	84,667	101,633	26,784	74,233	997,999	2,536,180	492,860	3,029,040
Profit and total comprehensive income for the period	—	—	—	—	—	—	228,757	228,757	67,443	296,200
Acquisition of non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	8,538	8,538
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(84,628)	(84,628)
Dividends recognized as distributions (Note 9)	—	(48,039)	—	—	—	—	—	(48,039)	—	(48,039)
Exercise of share options	2,108	52,976	—	—	—	(19,706)	—	35,378	—	35,378
Share based compensation	—	—	—	—	—	20,775	—	20,775	—	20,775
At June 30, 2017 (Unaudited)	129,578	1,128,331	84,667	101,633	26,784	75,302	1,226,756	2,773,051	484,213	3,257,264
At January 1, 2018 (Audited)	131,666	1,179,342	84,667	116,861	26,784	78,722	1,400,121	3,018,163	586,341	3,604,504
Profit and total comprehensive income for the period	—	—	—	—	—	—	262,088	262,088	66,230	328,318
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	40,571	40,571
Dividends recognized as distributions (Note 9)	—	(57,969)	—	—	—	—	—	(57,969)	—	(57,969)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(87,595)	(87,595)
Transfer to statutory reserve	—	—	—	519	—	—	(519)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	3,600	3,600
Acquisition of non-controlling interests of a subsidiary (Note)	—	—	—	—	(51,433)	—	—	(51,433)	(68,567)	(120,000)
Exercise of share options	2,590	146,793	—	—	—	(22,686)	—	126,697	—	126,697
Share based compensation	—	—	—	—	—	17,041	—	17,041	—	17,041
At June 30, 2018 (Unaudited)	134,256	1,268,166	84,667	117,380	(24,649)	73,077	1,661,690	3,314,587	540,580	3,855,167

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

	For the six months ended June 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	398,120	373,547
Adjustments for:		
Finance costs	4,090	4,000
Interest income	(25,170)	(18,854)
Depreciation of property and equipment	19,473	15,355
Amortization of cemetery assets	24,085	19,107
Amortization of intangible assets and prepaid lease payments	1,486	721
Amortization of other long-term assets	310	300
Net (gain) loss on disposal of property and equipment	(24)	42
Expense recognized in respect of equity-settled share based payments	17,041	20,775
Share of profit of a joint venture	—	(398)
	439,411	414,595
Operating cash flows before movements in working capital	439,411	414,595
Increase in restricted deposits	(3,574)	(4,907)
Decrease (increase) in cemetery assets and inventories	5,721	(24,214)
Increase in deposits paid for acquisition of land as cemetery assets	(91,409)	—
Increase in trade and other receivables	(13,705)	(599)
(Decrease) increase in trade and other payables	(48,048)	4,380
Increase in deferred income/contract liabilities	19,987	24,752
	308,383	414,007
Cash generated from operations	308,383	414,007
Income taxes paid	(95,789)	(91,857)
	212,594	322,150
NET CASH GENERATED FROM OPERATING ACTIVITIES	212,594	322,150
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	(50,623)	(46,514)
Prepayments and purchase of intangible assets	(3,370)	(2,557)
Addition to and deposits paid for acquisition of land use rights	(9,123)	—
Proceeds on disposal of property and equipment	236	61
Acquisition of subsidiaries	(98,595)	(28,377)
Placement of project deposit	(5,000)	—
Deposit for acquisition of non-controlling interests of a subsidiary	(4,500)	—
Interest received	18,824	20,686
Acquisition of non-controlling interests of a subsidiary	(120,000)	—
Dividends received from a joint venture	—	485
Investment to an associate	(750)	—
Repayment of entrusted loan	1,000	—
Withdrawal of time deposits	10,000	182,850
Placement of time deposits	(360,218)	—
Purchase of financial assets at fair value through profit or loss	(91,618)	—
	(713,737)	126,634
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(713,737)	126,634

(Continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

	For the six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(18,000)	(2,500)
Repayments to non-controlling interests	—	(52)
Capital contribution from non-controlling interests	3,600	—
Loans raised from non-controlling shareholders of subsidiaries	16,950	—
Interest paid	(10,904)	(4,000)
Dividends paid to non-controlling interests	(78,154)	(62,628)
Dividends paid to owners of the Company	(57,969)	(48,039)
Proceeds from exercise of share options	126,697	35,378
NET CASH USED IN FINANCING ACTIVITIES	(17,780)	(81,841)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(518,923)	366,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,936,992	1,238,906
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	1,418,069	1,605,849

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

3. CHANGE OF PRESENTATION OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

From the six months ended June 30, 2018, the Group presents its operating expenditures in the condensed consolidated statement of profit or loss and other comprehensive income by nature instead of by function in the previous period. In the opinions of the directors of the Company (the “Directors”):

- a. To present expenditures by nature could better depict the characteristics of the burial and funeral industry that the Group engages;
- b. Expenditure items by nature are more transparent, which is beneficial for investors to understand the business of the Group.

The financial position (for example: revenue, profit and total comprehensive income) of the Group is not affected by the change of presentation.

4. 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, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES – *continued*

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRS”) that are mandatorily effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Amendments to IAS 28	<i>As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

4.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognizes revenue from the following major sources:

- Burial services
- Funeral services
- Other services

The Group has applied IFRS 15 retrospectively with the cumulative effect of initial applying this Standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES — *continued*

4.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers — *continued*

4.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligation in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligations is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES — *continued*

4.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers — *continued*

4.1.1 Key changes in accounting policies resulting from application of IFRS 15 — *continued*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transactions price to each performance obligations on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

4.1.2 Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 have no material impact on retained profits at January 1, 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at December 31, 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under IFRS 15 at January 1, 2018 RMB'000
Current Liabilities					
Deferred income	(a)	22,617	(22,617)	—	—
Contract liabilities	(a)	—	22,617	—	22,617
Non-current Liabilities					
Deferred income	(a)	258,564	(258,564)	—	—
Contract liabilities	(a)	—	258,564	—	258,564

(a) As at January 1, 2018, deferred income of RMB281,181,000 were reclassified to contract liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES – *continued*

4.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers – *continued*

4.1.2 Summary of effects arising from initial application of IFRS 15 – *continued*

The following table summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at June 30, 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	Note	As reported RMB'000	Adjustments RMB'000	Amounts without Application of IFRS 15 RMB'000
Current Liabilities				
Deferred income	(a)	—	25,270	25,270
Contract liabilities	(a)	25,270	(25,270)	—
Non-current Liabilities				
Deferred income	(a)	—	284,914	284,914
Contract liabilities	(a)	284,914	(284,914)	—

(a) As at June 30, 2018, contract liabilities of RMB310,184,000 would have been reclassified to deferred income if IFRS 15 had not been applied.

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES – *continued*

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments – *continued*

4.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES — *continued*

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — *continued*

4.2.1 Key changes in accounting policies resulting from application of IFRS 9 — *continued*

Classification and measurement of financial assets — continued

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other income, gains and losses” line item.

The Directors reviewed and assessed the Group’s financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. There is no impact to the classification as at January 1, 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES – *continued*

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments – *continued*

4.2.1 Key changes in accounting policies resulting from application of IFRS 9 – *continued*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, time deposits, bank balances and cash and restricted deposits). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES — *continued*

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — *continued*

4.2.1 Key changes in accounting policies resulting from application of IFRS 9 — *continued*

Impairment under ECL model — continued

Significant increase in credit risk — continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased since initial recognition when contractual payments are past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of investment grade as per globally understood definitions.

The Group considers that default has occurred when the instrument is past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

4. PRINCIPAL ACCOUNTING POLICIES — *continued*

4.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — *continued*

4.2.1 Key changes in accounting policies resulting from application of IFRS 9 — *continued*

Impairment under ECL model — continued

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at January 1, 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. There is no impact to the impairment under ECL model as at January 1, 2018.

Except as described above, the application of amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

5A. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	For the six months ended June 30, 2018 RMB'000
Geographical markets	
Mainland China	789,215
Timing of revenue recognition	
A point in time	770,348
Over time	18,867
Total	789,215

5B. SEGMENT INFORMATION

Information reported to the Group's Chief Executive being the Group's chief operating decision maker, for the purpose of making decisions about allocating resources and assessing performance, focuses on the products and services delivered or provided.

The Group's reportable and operating segments are as follows:

- i. Burial services — sale of burial plots and provision of cemetery maintenance services.
- ii. Funeral services — planning of funeral arrangement and interment to the organization and hosting of the funeral.
- iii. 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, 2018

5B. SEGMENT INFORMATION — *continued*

Segment revenues and results

	Burial services RMB'000	Funeral services RMB'000	Others services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30, 2018:</i>						
External sales	687,977	91,777	9,461	789,215	—	789,215
Inter-segment sales	—	—	6,453	6,453	(6,453)	—
Total	687,977	91,777	15,914	795,668	(6,453)	789,215
Segment profit (loss)	368,807	6,086	(3,072)	371,821	(786)	371,035
Other income, gains and losses						31,175
Finance costs						(4,090)
Profit before taxation						398,120

	Burial services RMB'000	Funeral services RMB'000	Others services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30, 2017:</i>						
External sales	694,386	73,879	1,980	770,245	—	770,245
Inter-segment sales	—	—	2,982	2,982	(2,982)	—
Total	694,386	73,879	4,962	773,227	(2,982)	770,245
Segment profit (loss)	348,882	10,484	(5,426)	353,940	(572)	353,368
Other income, gains and losses						23,781
Share of profit of a joint venture						398
Finance costs						(4,000)
Profit before taxation						373,547

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

6. FINANCE COSTS

	For the six months ended June 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest expense on bank borrowings	2,506	3,187
Interest expense on loans from non-controlling interests (Note 29)	1,584	813
Total finance costs	4,090	4,000

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	149,456	142,554
Retirement benefits scheme contributions	10,130	8,432
Share based payments expenses	17,041	20,775
Total staff costs	176,627	171,761
Depreciation of property and equipment	19,473	15,355
Amortization of intangible assets and prepaid lease payments	1,486	721
Amortization of cemetery assets	26,524	24,286
Amortization of other long-term assets	310	300
Operating lease rentals	10,999	7,748

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

8. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("PRC EIT")	77,735	78,634
Over provision in prior years	(2,854)	(325)
Deferred tax (Note 15)	(5,079)	(962)
	<u>69,802</u>	<u>77,347</u>

Under the Law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulations of the PRC EIT law, the tax rate of the PRC subsidiaries is 25%.

According to the Circular of the Ministry of Finance, General Administration of Customs and State Administration of Taxation on the Implementation of Tax Policies Related to the Western Development Strategy (Caishui [2011] No. 58), Chongqing Anle Services Company Limited ("Chongqing Anle Services"), Chongqing Baitayuan Funeral and Burial Development Co., Ltd. ("Chongqing Baitayuan"), Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), Guizhou Tianyuanshan Funeral Services Company Limited ("Guizhou Tianyuanshan") and Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd. ("Xiyuan Fu Shou Yuan"), subsidiaries of the Group which are located in specific provinces of Western China and engaged in specific encouraged industry, enjoy a preferential PRC EIT rate of 15%. The preferential tax rate for Chongqing Anle Services, Chongqing Baitayuan, Chongqing Anle Funeral Services, Guizhou Tianyuanshan and Xiyuan Fu Shou Yuan is effective until 2020.

Fu Shou Yuan Group (Hong Kong) Limited ("FSY Hong Kong") is subject to Hong Kong profit tax at a rate of 16.5% in 2017 and two-tiered profits tax rates regime is applicable to years of assessment beginning on or after April 1, 2018. The certain conditions and exceptions is 8.25% on assessable profits up to HK\$2,000,000, and 16.5% on any part of assessable profits over HK\$2,000,000. No Hong Kong profit tax has been provided as the group entities did not have assessable profit earned in or derived from Hong Kong during the six months periods ended June 30, 2018 and 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

9. DIVIDENDS

	For the six months ended June 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Dividends for ordinary shareholders of the Company recognized as distribution during the period		
2017 Final — HK\$3.24 cents		
(2017: 2016 final dividend — HK\$2.60 cents) per share	<u>57,969</u>	<u>48,039</u>

Subsequent to the end of the current interim period, the Directors have declared an interim dividend of HK\$3.72 cents per share (2017: HK\$3.24 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,	
	2018 (Unaudited)	2017 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>262,088</u>	<u>228,757</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,180,894,303</u>	2,111,325,389
Effect of dilutive potential ordinary shares:		
Share options	<u>50,594,597</u>	<u>39,425,634</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,231,488,900</u>	<u>2,150,751,023</u>

The computation of diluted earnings per share for the six months ended June 30, 2018 and 2017 does not assume the exercise of some of the Company's options because the exercise price is higher than the weighted average market price.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

11. PROPERTY AND EQUIPMENT

During the period, the Group acquired property and equipment of approximately RMB71,317,000 (six months ended June 30, 2017: RMB55,619,000), among which RMB29,125,000 was acquired through acquisition of subsidiaries for business expansion.

During the period, the Group disposed of property and equipment with carrying amount of approximately RMB212,000 (six months ended June 30, 2017: RMB103,000) for cash proceeds of approximately RMB236,000 (six months ended June 30, 2017: RMB61,000) resulting in a gain on disposal of approximately RMB24,000 (six months ended June 30, 2017: loss of RMB42,000).

As at June 30, 2018, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB104,002,000 (December 31, 2017: RMB99,026,000) had not been obtained.

12. GOODWILL

The movements in goodwill during the six months ended June 30, 2018 are as follows:

	For the six months ended June 30, 2018 RMB'000 (Unaudited)
COST	
At the beginning of the period	360,274
Arising on acquisition of subsidiaries (Note 26)	67,747
	<u>428,021</u>
At the end of the period	<u>428,021</u>

13. CEMETERY ASSETS

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Land costs	865,440	805,584
Landscape facilities	191,300	170,277
Development cost	270,014	268,960
	<u>1,326,754</u>	<u>1,244,821</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

14. RESTRICTED DEPOSITS

Restricted deposits represent the deposits which are placed in designated joint controlled bank accounts with local funeral associations. In accordance with the requirements of local authorities, the balances are provided based on certain percentages of cemetery sales of certain subsidiaries for the use of cemetery maintenance. The restricted deposits can be drawn only with simultaneous approvals from both sides of the subsidiary and the respective funeral association for cemetery maintenance expenditure.

15. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the six months ended June 30, 2018:

	Deferred income/ contract liabilities RMB'000	Tax losses RMB'000	Fair value adjustment RMB'000	Total RMB'000
At January 1, 2017 (audited)	22,809	4,704	(89,142)	(61,629)
Acquisition of a subsidiary	—	—	(750)	(750)
Credit (charge) to profit or loss	1,270	(1,517)	1,209	962
At June 30, 2017 (unaudited)	24,079	3,187	(88,683)	(61,417)
At January 1, 2018 (audited)	27,243	8,674	(84,612)	(48,695)
Acquisition of subsidiaries (Note 26)	—	—	(12,673)	(12,673)
Credit to profit or loss	1,871	1,383	1,825	5,079
At June 30, 2018 (unaudited)	29,114	10,057	(95,460)	(56,289)

Note: Fair value adjustment mainly refers to revaluation of property and equipment and cemetery assets upon the business combination arose from acquisition of subsidiaries

For the purpose of presentation in the condensed consolidated statement of financial position, deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same legal entity and tax bureau. The following is the analysis of the deferred tax balances for financial reporting purposes:

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Deferred tax assets	41,284	38,039
Deferred tax liabilities	(97,573)	(86,734)
	(56,289)	(48,695)

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, 2018

16. INVENTORIES

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Burial Plots	306,955	302,733
Tombstone	92,902	80,159
Others	49,393	43,489
	<u>449,250</u>	<u>426,381</u>

17. TRADE AND OTHER RECEIVABLES

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Trade receivables	11,506	6,310
Other receivables comprise:		
Prepayments and rental deposits on properties	4,255	2,650
Staff advances	2,975	1,335
Entrusted loan (Note)	11,950	12,950
Management service income receivable	—	2,355
Interest receivables	7,606	1,260
Others	27,409	20,447
	<u>65,701</u>	<u>47,307</u>

Note: As at June 30, 2018, the Group has advanced a loan amounting to RMB11,950,000 (December 31, 2017: RMB12,950,000) 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, funeral services and other services (other than sales of cremation machines and provision of landscape and garden design services) and therefore the Group does not maintain any material trade receivables. Before accepting any new customer for sales of cremation machines and provision of landscape and garden design services, the Group assesses 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, 2018

17. TRADE AND OTHER RECEIVABLES – *continued*

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

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Within one year	6,757	—
Over one year but less than two years	4,749	6,269
Over two years but less than three years	—	41
	<u>11,506</u>	<u>6,310</u>

Included in the Group's trade receivables are balances with aggregate carrying amount of RMB219,000 (December 31, 2017: RMB373,000) which are past due at the end of reporting period.

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period, the Group entered into several contracts of structured deposits and wealth management products with banks. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. The principal of RMB71,618,354 was not guaranteed by the relevant banks. The principal of RMB20,000,000 was guaranteed by the relevant banks in which the return of the structured deposits and wealth management products were determined by reference to the performance of the underlying benchmark. The expected return rate stated in the contracts of all financial assets at FVTPL ranges from 2.50% to 4.60% per annum.

In the opinion of the Directors, the fair value of the structured deposits at June 30, 2018 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. All structured deposits will be matured within one year.

19. TIME DEPOSITS

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
RMB-denominated (Note)	<u>360,218</u>	<u>10,000</u>

Note: As at June 30, 2018, the Group had fixed-term deposits of RMB360,218,000 in banks with maturity of six months and fixed interest rate of 1.92% to 4.35% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

20. 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, 2018 (Unaudited)	December 31, 2017 (Audited)
Interest rate per annum		
— RMB	0.35%-4.70%	0.35%-3.8%
— HK\$	0.01%	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, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
HK\$	81,174	97,069
US\$	31,510	31,315
	112,684	128,384

21. TRADE AND OTHER PAYABLES

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Trade payables	115,332	126,209
Other payables comprise:		
Advances and deposits from customers	22,536	23,706
Payables for acquisition of property and equipment	604	604
Salary, welfare and bonus payables	87,267	110,546
Other accrued expenses	32,402	44,965
Consideration for acquisition of subsidiaries	89,800	35,076
Dividend payable to non-controlling interests	9,441	—
Others	51,723	49,789
	409,104	390,895

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

21. TRADE AND OTHER PAYABLES – *continued*

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

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
0 – 90 days	27,894	41,440
91 – 180 days	11,269	11,370
181 – 365 days	31,958	40,272
Over 365 days	44,211	33,127
	115,332	126,209

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

22. BORROWINGS

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Bank borrowings		
– Secured by the Group's equity interest in subsidiaries	63,020	81,020
– Unsecured	32,000	32,000
	95,020	113,020
Less: amounts due within one year shown under current liabilities	(53,000)	(60,500)
Amounts shown under non-current liabilities	42,020	52,520

The bank borrowings carried interest at 4.350% to 4.998% per annum (December 31, 2017: 4.350% to 4.998%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

22. BORROWINGS – continued

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

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Net book value of the Group's equity interest in subsidiaries	<u>126,366</u>	<u>133,568</u>

23. DEFERRED INCOME/CONTRACT LIABILITIES

Deferred income/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.

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Carrying amount analyzed as:		
Amounts shown under current liabilities	25,270	22,617
Amounts shown under non-current liabilities	<u>284,914</u>	<u>258,564</u>
	<u>310,184</u>	<u>281,181</u>

24. SHARE CAPITAL

	Number of shares	Amount US\$
Ordinary shares of US\$0.01 each		
Authorized:		
At June 30, 2018, December 31, 2017 and January 1, 2017	<u>20,000,000,000</u>	<u>200,000,000</u>

Issued and fully paid:

	Number of shares	Amount US\$	Share capital RMB'000
At January 1, 2018 (Audited)	2,164,539,422	21,645,394	131,666
Exercise of share options (Note 25)	<u>40,711,000</u>	<u>407,110</u>	<u>2,590</u>
At June 30, 2018 (Unaudited)	<u>2,205,250,422</u>	<u>22,052,504</u>	<u>134,256</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, 2018

25. SHARE BASED COMPENSATION

Share Option Scheme

Set out below are details of movements in the outstanding options granted under the Share Option Scheme during the six months ended June 30, 2018:

	Date of grant	Exercise price per Share (HK\$)	Number of options				Options balance outstanding as at June 30, 2018
			Options balance outstanding as at January 1, 2018	Granted during the six months ended June 30, 2018	Exercised during the six months ended June 30, 2018	Forfeited during the six months ended June 30, 2018	
Directors							
Bai Xiaojiang	August 5, 2014	4.14	—	—	—	—	—
	March 19, 2015	3.126	1,500,000	—	—	—	1,500,000
	March 24, 2016	5.824	2,000,000	—	—	—	2,000,000
	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	March 20, 2017	4.850	5,000,000	—	—	—	5,000,000
Wang Jisheng	August 5, 2014	4.14	—	—	—	—	—
	March 19, 2015	3.126	1,500,000	—	—	—	1,500,000
	March 24, 2016	5.824	2,000,000	—	—	—	2,000,000
	May 16, 2016	5.466	1,000,000	—	—	—	1,000,000
	March 20, 2017	4.850	5,000,000	—	—	—	5,000,000
Tan Leon Li-an	August 5, 2014	4.14	400,000	—	(400,000)	—	—
	March 24, 2016	5.824	500,000	—	—	—	500,000
Ma Xiang	March 24, 2016	5.824	500,000	—	—	—	500,000
Lu Hesheng	August 5, 2014	4.14	400,000	—	(400,000)	—	—
	March 19, 2015	3.126	500,000	—	—	—	500,000
	March 24, 2016	5.824	500,000	—	—	—	500,000
	March 20, 2017	4.850	500,000	—	—	—	500,000
Huang James Chih-cheng	August 5, 2014	4.14	400,000	—	—	—	400,000
Chen Qunlin	August 5, 2014	4.14	200,000	—	(200,000)	—	—
	March 19, 2015	3.126	300,000	—	—	—	300,000
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Luo Zhuping	August 5, 2014	4.14	200,000	—	(200,000)	—	—
	March 19, 2015	3.126	300,000	—	—	—	300,000
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Ho Man	August 5, 2014	4.14	200,000	—	(200,000)	—	—
	March 19, 2015	3.126	300,000	—	—	—	300,000
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Wu Jianwei	August 5, 2014	4.14	200,000	—	(200,000)	—	—
	March 19, 2015	3.126	300,000	—	—	—	300,000
	March 24, 2016	5.824	300,000	—	—	—	300,000
	March 20, 2017	4.850	300,000	—	—	—	300,000
Other employees			27,100,000	—	(1,600,000)	—	25,500,000
	August 5, 2014	4.14	16,879,000	—	(16,699,000)	—	180,000
	March 19, 2015	3.126	35,673,000	—	(18,502,000)	—	17,171,000
	March 24, 2016	5.824	41,300,000	—	(3,910,000)	—	37,390,000
	March 20, 2017	4.850	38,300,000	—	—	—	38,300,000
Total			159,252,000	—	(40,711,000)	—	118,541,000
Exercisable at June 30			34,252,000				43,451,000
Weighted average exercise price (HK\$)			4.63	N/A	3.84	N/A	4.90

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

25. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

As at June 30, 2018, 118,541,000 (December 31, 2017: 159,252,000) share options remains outstanding under the Share Option Scheme, representing 5.38% (December 31, 2017: 7.36%) 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\$8.00 (for the six-month ended June 30, 2017: HK\$4.93).

The Group recognized the total expense of approximately RMB17,041,000 (for the six-month ended June 30, 2017: RMB20,775,000) for the six-month ended June 30, 2018 in relation to share options granted by the Company under Share Option Scheme.

26. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of 100% equity interest in Chaoyang Longshan Fuyuan Cemetery Co., Ltd (“Chaoyang Longshan Cemetery”)

On May 9, 2018, Shanghai Fu Shou Yuan Industry Development Co., Ltd (“Shanghai FSY”), a wholly-owned subsidiary of the Group, entered into an agreement with an independent third party not connected to the Group to acquire 100% equity interest in Chaoyang Longshan Cemetery, for a consideration of RMB34,212,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB12,903,000. Chaoyang Longshan Cemetery is engaged in burial service and was acquired as part of the Group’s expansion. The acquisition was completed in May 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of 100% equity interest in Chaoyang Longshan Fuyuan Cemetery Co., Ltd (“Chaoyang Longshan Cemetery”) – *continued*

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	228
Cemetery assets	21,005
Inventories	5,967
Other receivables	84
Bank balances and cash	807
Trade and other payables	(754)
Deferred tax liabilities	(4,528)
Contract liabilities	(1,500)
Net assets acquired	21,309
Goodwill	12,903
	34,212
Satisfied by:	
Cash paid in the six months ended June 30, 2018	19,042
Deposit paid in prior years	14,170
Consideration payable	1,000
Cash consideration	34,212
Cash paid upon completion of the acquisition	19,042
Less: bank balances and cash acquired	807
Net cash outflow arising on acquisition:	18,235

Goodwill arising in the acquisition of Chaoyang Longshan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Chaoyang Longshan Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the period is a profit of approximately RMB35,000 which is attributable to Chaoyang Longshan Cemetery.

Had the acquisition been completed on January 1, 2018, total group revenue for the period six months ended June 30, 2018 (the “Period”) would have been RMB793,290,000 and profit for the Period would have been RMB328,266,000. 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, 2018, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of 100% equity interest in Chaoyang Longshan Fuyuan Cemetery Co., Ltd (“Chaoyang Longshan Cemetery”) – *continued*

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

(b) Acquisition of 100% equity interest in Helinge’er County Anyou Ecological Memorial Cemetery Co., Ltd (“Helinge’er Anyou Cemetery”)

In May 2018, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 100% equity interest of Helinge’er Anyou Cemetery by phases at a total consideration of RMB119,200,000.

In May 2018, Shanghai FSY acquired 60% equity interest of Helinge’er Anyou Cemetery through capital injection for the first phase. Pursuant to the agreement, upon fulfillment of certain conditions, Shanghai FSY will acquire the remaining 40% equity interests of Helinge’er Anyou Cemetery for the second phase. After the afore-mentioned transaction, Shanghai FSY will hold 100% equity interest of Helinge’er Anyou Cemetery and become its sole shareholder. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB35,721,000. Helinge’er Anyou Cemetery is engaged in burial service and was acquired as part of the Group’s expansion.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 100% equity interest in Helinge'er County Anyou Ecological Memorial Cemetery Co., Ltd ("Helinge'er Anyou Cemetery") – *continued*

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	4,817
Cemetery assets	74,140
Inventories	19,999
Other receivables	16
Bank balances and cash	31,844
Trade and other payables	(33,212)
Deferred tax liabilities	(8,145)
Contract liabilities	(5,980)
Net assets acquired	83,479
Non-controlling interest	(33,392)
Goodwill	35,721
	85,808
Satisfied by:	
Consideration payable	50,191
Cash paid in the six months ended June 30, 2018	35,617
Cash consideration	85,808
Capital injection	59,898
Less: bank balances and cash acquired	31,844
Net cash outflow arising on acquisition:	28,054

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 100% equity interest in Helinge'er County Anyou Ecological Memorial Cemetery Co., Ltd ("Helinge'er Anyou Cemetery") – *continued*

Goodwill arose in the acquisition of Helinge'er Anyou Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Helinge'er Anyou Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the period is a loss of approximately RMB111,000 which is attributable to Helinge'er Anyou Cemetery.

Had the acquisition been completed on January 1, 2018, total group revenue for the Period would have been RMB797,207,000 and profit for the Period would have been RMB329,713,000. 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, 2018, nor is it intended to be a projection of future results.

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

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan Funeral Service Co., Ltd. ("Guizhou Tianyuanshan")

In May 2018, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 80% equity interest of Guizhou Tianyuanshan by phases at a total consideration of RMB72,000,000.

In May 2018, Shanghai FSY acquired 80% equity interest in Guizhou Tianyuanshan for the first phase. Pursuant to the agreement, upon fulfilment of certain conditions, Shanghai FSY will make further capital contributions to Guizhou Tianyuanshan. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB19,123,000. Guizhou Tianyuanshan is engaged in burial service and funeral service and was acquired as part of the Group's expansion.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan Funeral Service Co., Ltd. ("Guizhou Tianyuanshan") – *continued*

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	24,080
Cemetery assets	4,980
Other long-term assets	9,021
Inventories	87
Other receivables	410
Bank balances and cash	233
Trade and other payables	(1,379)
Contract liabilities	(1,536)
Net assets acquired	35,896
Non-controlling interest	(7,179)
Goodwill	19,123
	47,840
Satisfied by:	
Cash paid in the six months ended June 30, 2018	34,600
Consideration payable	13,240
Cash consideration	47,840
Cash paid upon completion of the acquisition	34,600
Less: bank balances and cash acquired	233
Net cash outflow arising on acquisition	34,367

Goodwill arose in the acquisition of Guizhou Tianyuanshan because the consideration for the combination effectively included amounts in relation to the future business growth of Guizhou Tianyuanshan. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the period is a profit of approximately RMB640,000 which is attributable to Guizhou Tianyuanshan.

Had the acquisition been completed on January 1, 2018, total group revenue for the Period would have been RMB802,514,000 and profit for the Period would have been RMB327,863,000. 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, 2018, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

26. ACQUISITION OF SUBSIDIARIES – *continued*

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan Funeral Service Co., Ltd. (“Guizhou Tianyuanshan”) – *continued*

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

27. OPERATING LEASES

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group’s properties and land which fall due as follows:

	June 30, 2018 RMB’000 (Unaudited)	December 31, 2017 RMB’000 (Audited)
Within one year	11,390	8,402
In the second to fifth year inclusive	25,510	14,669
After five years	6,376	7,074
	43,276	30,145

The remaining lease terms ranged from one year to eighteen years.

28. CAPITAL AND OTHER COMMITMENTS

	June 30, 2018 RMB’000 (Unaudited)	December 31, 2017 RMB’000 (Audited)
Acquisition of property & equipment and cemetery assets:		
– contracted for but not provided in the condensed consolidated financial statements	44,408	57,072
Acquisition of subsidiaries:		
– contracted for but not provided in the condensed consolidated financial statements	57,552	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

29. LOANS FROM NON-CONTROLLING INTERESTS

	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Chongqing Guolong Agricultural Science and Technology Development Co. Ltd (Note) (重慶國隆農業科技發展有限公司)	27,617	10,039
Shandong World Trade Centre (山東世界貿易中心)	34,083	41,525
	61,700	51,564

Note: The English names of the entity established in the PRC are translated for identification purpose only.

The loan from Chongqing Guolong Agricultural Science and Technology Development Co. Ltd (重慶國隆農業科技發展有限公司) carried fixed interest rate at 4.350% (December 31, 2017: 4.350%) per annum and is due in November 2018 and January 2019.

The loan from Shandong World Trade Centre (山東世界貿易中心) carried fixed interest rate at 5.655% (December 31, 2017: 4.785%) per annum.

As at June 30, 2018 the Directors consider that the repayment of loan due to Shandong World Trade Center will not be demanded within the twelve months from the period end. Accordingly, the amount is shown as non-current as at June 30, 2018.

30. 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, 2018

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	June 30, 2018 (unaudited)	December 31, 2017 (audited)		
Financial assets at fair value through profit or loss	Bank wealth management products and structured deposits in PRC with principal of RMB91,618,354		Nil Level 3	Discounted cash flows Key unobservable input is: (1) discount rate that reflects the credit risk of the banks (Note)

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

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

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at fair value through profit or loss
At January 1, 2018	—
Purchase	91,618
At June 30, 2018	91,618

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

31. CONTINGENT LIABILITIES

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

As of the date of these condensed consolidated financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the “Proceedings”) of which 10 were either settled, subsequently withdrawn or concluded by the Province People’s Courts resulting a RMB2.3 million net settlement paid/payable by the Group.

The total claims on the remaining 2 Proceedings (the “Remaining Proceedings”), where appropriate, including the interest accrued up to the date of these condensed consolidated financial statements, amounting to RMB40.8 million and the status of which are disclosed as follows:

- 1 claim over RMB29.9 million awarded in favor of the plaintiffs in the second-instance of the Province People’s Courts;
- 1 claim over RMB10.9 million suspended for sentence in the second-instance of the Province People’s Courts.

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

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.

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

Acquisition of a subsidiary

Subsequent to the end of the current period, as the second phase of the acquisition of Helinge’er Anyou Cemetery, the Group completed acquisition of 40% equity interest in Helinge’er Anyou Cemetery.

DEFINITIONS AND GLOSSARY

“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Wulong Civil Service Co., Ltd.* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“ASP”	Average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“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
“Chaoyang Longshan Cemetery”	a cemetery in Chaoyang County of Liaoning Province and operated by Chaoyang Longshan Fuyuan Cemetery Co., Ltd.* (朝陽縣龍山福園公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Chongqing Anle 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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS AND GLOSSARY

“Director(s)”	the director(s) of the Company
“Double Riches”	Double Riches Investments Limited, a limited liability company incorporated in the BVI on October 28, 2011, and one of our Shareholders
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“FSG Holding”	FSG Holding Corporation, a company incorporated in BVI on December 6, 2011 and one of the Company’s Shareholders
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
“Global Offering” or “IPO”	the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013
“Group”, “our Group”, “us” or “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Guanlingshan Cultural Cemetery”	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Guizhou Tianyuanshan”	Guizhou Tianyuanshan Funeral Service Co., Ltd.* (貴州天圓山殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Haigang Fu Shou Yuan”	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by Shanghai Nanyuan Industrial Development Co. Ltd.* (上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company
“Hefei Dashushan Cultural Cemetery”	a cemetery in Hefei of Anhui Province and operated by Hefei Dashushan Culture Cemetery Co., Ltd.* (合肥大蜀山文化陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Helinge’er Anyou Cemetery”	a cemetery in Hohhot City of the Inner Mongolia Autonomous Region and operated by Helingeer County Anyou Ecological Memorial Cemetery Co., Ltd.* (和林格爾縣安佑生態紀念陵園有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company

DEFINITIONS AND GLOSSARY

“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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
“Huaibei Fangshan Cemetery”	A cemetery in Huaibei City of Anhui Province and operated by Huaibei Fu Shou Yuan Memorial Park Co., Ltd.* (淮北福壽園紀念陵有限責任公司), a limited company established under laws of the PRC and a joint venture of the Company
“Jinzhou Maoshan Anling”	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Listing”	listing of the Shares on the Stock Exchange
“Listing Date”	December 19, 2013, the date on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Luoyang Xianhe Cemetery”	A cemetery in Luoyang City of Henan Province and operated by Luoyang Xianhe Memorial Cemetery Co., Ltd.* (洛陽仙鶴紀念陵園有限公司), a limited company established under the PRC and a subsidiary of the Company since January 2017
“Meilin Century Cemetery”	a cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Nanchang Hongfu”	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company

DEFINITIONS AND GLOSSARY

“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
“Period”	the six months ended June 30, 2018
“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, 2017
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“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 Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq.m.”	square meters

DEFINITIONS AND GLOSSARY

“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
“Xiyuan Fu Shou Yuan”	Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd.* (重慶福壽園西苑實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Zaozhuang Shanting Xingtai”	Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
“Zhongfu”	China Zhongfu Industrial Co., Ltd.* (中國中福實業有限公司), formerly known as China Zhongfu Industrial Corporation (中國中福實業總公司), a limited liability company established in the PRC on July 15, 1985 and directly wholly-owned by Hongfu, and one of the Company’s Shareholders
“%”	per cent.

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