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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

2018 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the year ended December 31, 2018 amounted to approximately RMB1,651.3 million, representing an increase of approximately 11.8% compared with the year ended December 31, 2017.
- Profit and total comprehensive income attributable to owners of the Company amounted to approximately RMB488.4 million, representing an increase of approximately 17.0% compared with the year ended December 31, 2017.
- Basic earnings per Share amounted to approximately RMB22.2 cents, representing an increase of approximately 13.3% compared with the year ended December 31, 2017.
- The Board proposed a final dividend of HK3.72 cents per Share for the year ended December 31, 2018.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the audited consolidated annual financial results of the Group for the year ended December 31, 2018 together with the comparative figures for the year ended December 31, 2017 as set out below. The consolidated results are audited and have been reviewed by the Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2018

	NOTES	**2018** **RMB'000**	2017 RMB'000
Revenue	4	**1,651,299**	1,477,208
Operating expenditures			
Staff costs		**(401,192)**	(354,356)
Construction costs		**(70,137)**	(54,091)
Consumed materials and goods		**(117,113)**	(109,148)
Outsourced service costs		**(55,002)**	(54,738)
Marketing and sales channel costs		**(43,876)**	(61,758)
Depreciation and amortization		**(92,730)**	(74,697)
Other general operating expenditures		**(137,717)**	(119,178)
Inventory changes		**(10,638)**	(8,076)
Profit from operations		**722,894**	641,166
Other income, gains and losses		**60,172**	58,805
Share of profit of a joint venture		**—**	398
Finance costs		**(8,293)**	(15,585)
Profit before taxation	5	**774,773**	684,784
Income tax expense	6	**(159,140)**	(134,611)
Profit and total comprehensive income for the year		**615,633**	550,173
Profit and total comprehensive income attributable to:			
Owners of the Company		**488,364**	417,350
Non-controlling interests		**127,269**	132,823
		615,633	550,173
		RMB cents	*RMB cents*
Earnings per share			
— Basic	7	**22.2**	19.6
— Diluted	7	**21.9**	19.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

	NOTES	**2018** **RMB'000**	2017 *RMB'000*
Non-current assets			
Property and equipment	8	**545,000**	478,753
Prepaid lease payment		**34,072**	20,016
Investment property		**6,509**	6,509
Intangible assets		**21,643**	17,198
Goodwill	9	**428,021**	360,274
Financial assets at fair value through profit or loss		**29,761**	—
Deposits paid for acquisition of land use rights		**19,655**	16,160
Cemetery assets	10	**1,415,849**	1,244,821
Investment in an associate		**750**	—
Restricted deposits		**46,852**	38,750
Deferred tax assets	17	**45,377**	38,039
Other long-term assets		**25,339**	20,835
		2,618,828	2,241,355
Current assets			
Inventories	11	**448,003**	426,381
Trade and other receivables	12	**51,504**	47,307
Financial assets at fair value through profit or loss		**577,420**	—
Time deposits		**48,298**	10,000
Bank balances and cash	13	**1,493,651**	1,936,992
		2,618,876	2,420,680
Current liabilities			
Trade and other payables	14	**434,296**	390,895
Deferred income		**—**	22,617
Contract liabilities	16	**35,442**	—
Loans from non-controlling shareholders of subsidiaries		**26,950**	10,039
Income tax liabilities		**143,927**	120,544
Borrowings	15	**75,000**	60,500
		715,615	604,595
Net current assets		**1,903,261**	1,816,085
Total assets less current liabilities		**4,522,089**	4,057,440

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred income		**—**	258,564
Contract liabilities	16	**301,801**	—
Other long-term liability		**13,774**	13,593
Loans from non-controlling shareholders of subsidiaries		**31,969**	41,525
Borrowings	15	**28,860**	52,520
Deferred tax liabilities	17	**94,802**	86,734
		471,206	452,936
Net assets		**4,050,883**	3,604,504
Capital and reserves			
Share capital		**134,920**	131,666
Reserves		**3,377,511**	2,886,497
Equity attributable to owners of the Company		**3,512,431**	3,018,163
Non-controlling interests		**538,452**	586,341
Total equity		**4,050,883**	3,604,504

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition

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

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

Revenue from the sale of burial plots is recognized when the control of burial plots is transferred to the customer, being when the right to use burial plots has passed.

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

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

4. SEGMENT INFORMATION

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

	2018	2017
	RMB'000	*RMB'000*
Burial Services	**1,427,123**	1,300,045
Funeral services	**197,688**	157,855
Other services	**42,825**	37,138
Inter-segments elimination	**(16,337)**	(17,830)
	1,651,299	1,477,208

Geographical information

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

	2018	2017
	Revenue	Revenue
	RMB'000	*RMB'000*
Shanghai	**862,165**	780,296
Henan	**98,171**	88,265
Chongqing	**70,404**	70,563
Anhui	**158,072**	137,334
Shandong	**69,116**	59,718
Liaoning	**175,037**	174,109
Jiangxi	**55,071**	45,924
Fujian	**37,735**	33,636
Zhejiang	**17,359**	8,341
Jiangsu	**52,944**	57,017
Guangxi	**11,755**	2,697
Inner Mongolia	**9,958**	—
Guizhou	**7,024**	—
	1,624,811	1,457,900

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	**347,977**	292,240
Retirement benefits scheme contributions	**22,667**	19,578
Share based payments expenses	**30,548**	42,538
Total staff costs	**401,192**	354,356
Depreciation of property and equipment	**41,526**	32,134
Amortization of intangible assets and prepaid lease payments	**4,125**	1,524
Amortization of cemetery assets	**46,637**	40,347
Amortization of other long-term assets	**442**	692
Operating lease rentals	**24,916**	16,081

6. INCOME TAX EXPENSE

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

Under EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the Year with the exception of Chongqing Anle Services, Chongqing Anle Funeral Services, Chongqing Baitayuan, Guizhou Tianyuanshan, and Xiyuan Fu Shou Yuan which are located in specific provinces of Western China and subject to a lower concessionary income tax rate of 15%. The preferential tax rate for these subsidiaries is effective until 2020.

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, under which the first HK$2 million of profits will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%, is applicable to years of assessment beginning on or after April 1, 2018. No Hong Kong profit tax has been provided as the Group did not have assessable profit earned in or derived from Hong Kong during the Year.

7. 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:

	2018	2017
Earnings		
Earnings for the purpose of basic and diluted earnings per share *(RMB'000)*	**488,364**	417,350
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,196,619,245**	2,131,816,548
Effect of dilutive potential ordinary shares:		
Share options	**36,936,773**	33,115,282
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,233,556,018**	2,164,931,830

8. PROPERTY AND EQUIPMENT

	2018	2017
	RMB'000	*RMB'000*
Buildings	**315,602**	240,381
Leasehold improvements	**18,219**	16,722
Furniture, fixtures and equipment	**47,889**	38,063
Motor vehicles	**15,117**	13,656
Construction in progress	**148,173**	169,931
	545,000	478,753

9. GOODWILL

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

	2018	2017
	RMB'000	*RMB'000*
Haigang Fu Shou Yuan	**9,595**	9,595
Jinzhou Maoshan Anling	**3,738**	3,738
Henan Fu Shou Yuan	**14,769**	14,769
Chongqing Baitayuan	**47,458**	47,458
Meilin Century Cemetery	**18,899**	18,899
Guanlingshan Cultural Cemetery	**47,245**	47,245
Wuyuan Wanshoushan Cemetery	**36,107**	36,107
Anyang Tianshouyuan Cemetery	**2,425**	2,425
Changzhou Qifengshan Cemetery	**87,425**	87,425
Zaozhuang Shanting Xingtai	**22,973**	22,973
Luoyang Xianhe Cemetery	**23,451**	23,451
Temshine	**23,433**	23,433
Guangxi Huazuyuan Cemetery	**22,756**	22,756
Chaoyang Longshan Cemetery	**12,903**	—
Guizhou Tianyuanshan	**19,123**	—
Helinge'er Anyou Cemetery	**35,721**	—
	428,021	360,274

10. CEMETERY ASSETS

	2018	2017
	RMB'000	*RMB'000*
Land costs	**943,613**	805,584
Landscape facilities	**187,193**	170,277
Development cost	**285,043**	268,960
	1,415,849	1,244,821

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

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

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

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

11. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Burial Plots	**308,525**	302,733
Tombstone	**91,550**	80,159
Others	**47,928**	43,489
	448,003	426,381

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**14,778**	6,310
Other receivables comprise:		
Prepayments and rental deposits on properties	**3,632**	2,650
Staff advances	**1,791**	1,335
Entrusted loans *(note)*	**11,950**	12,950
Management service income receivable	**—**	2,355
Bond for new projects	**3,462**	1,055
Prepayments to suppliers	**2,196**	451
Others	**13,695**	20,201
	51,504	47,307

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

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

	2018	2017
	RMB'000	*RMB'000*
Within one year	**10,207**	—
Over one year but less than two years	**—**	6,269
Over two years but less than three years	**4,571**	41
	14,778	6,310

The Group ordinarily demands its customers for full cash settlement prior to or upon the delivery of burial services and funeral services. The Group may allow a credit period to its customers for sales of cremation machines, provision of landscape and garden design services, and services offered to local funeral administration authorities. Before accepting any new customer asking for credit period, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of the trade receivables, the Group reassesses any change in the credit quality of the trade receivables since the credit was granted and up to the date of this announcement. After reassessment, the directors of the Company are of the view that no allowance is required.

13. BANK BALANCES AND CASH

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

	2018	2017
Interest rate per annum		
— RMB	**0.30%–4.35%**	0.35%–3.8%
— HK$	**0.01%–2.45%**	0.01%
— US$	**0.05%**	0.05%

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

	2018	2017
	RMB'000	*RMB'000*
HK$	**74,500**	97,069
US$	**33,360**	31,315
	107,860	128,384

14. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**165,393**	126,209
Other payables comprise:		
Advances and deposits from customers	**14,688**	23,706
Payables for acquisition of property and equipment	**604**	604
Salary, welfare and bonus payables	**139,541**	110,546
Other accrued expenses	**49,134**	44,965
Consideration payables for acquisition of subsidiaries	**39,578**	35,076
Others	**25,358**	49,789
	434,296	390,895

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

	2018 *RMB'000*	2017 *RMB'000*
0–90 days	**62,467**	41,440
91–180 days	**17,485**	11,370
181–365 days	**15,139**	40,272
Over 365 days	**70,302**	33,127
	165,393	126,209

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

15. BORROWINGS

	2018 *RMB'000*	2017 *RMB'000*
Bank borrowings		
— Secured by the Group's equity interest in subsidiaries	**43,860**	81,020
— Unsecured	**60,000**	32,000
	103,860	113,020
The carrying amounts of the above borrowings are repayable:		
Within one year	**75,000**	60,500
More than one year, but not exceeding two years	**15,000**	20,830
More than two years, but not more than five years	**13,860**	31,690
	103,860	113,020

The bank borrowings carried interest at 4.35% to 4.998% per annum (2017: 4.35% to 4.998%).

16. CONTRACT LIABILITIES

	2018 *RMB'000*	2017* *RMB'000*
Cemetery maintenance services	**326,496**	281,181
Sales of pre-need contracts	**10,747**	4,045
	337,243	285,226

* The amounts in this column are after the adjustments from the application of IFRS 15.

Cemetery maintenance services

The contract liabilities related to cemetery maintenance services represents the portion of revenue generated from the provision of burial services that has not been earned as revenue in accordance with the revenue recognition policy and the nature of the business.

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

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

The Group keeps track of the cemetery maintenance expense for the sites and makes estimate based on the projected increases, such as increase in the labor cost and the incremental maintenance expense as a result of increase in future sales. Total estimated cemetery maintenance expense plus a reasonable margin, offset by estimated maintenance fees to be received, represent the revenue to be deferred, which is recorded as the contract liabilities relating to cemetery maintenance services.

Sales of pre-need contracts

Sales of pre-need contracts is sales of funeral services based on a contract prior to death occurring. The payment is due when the pre-need contract is signed, this will give rise to contract liabilities at the start of a contract, until the revenue recognised when the funeral service is offered.

17. DEFERRED TAXATION

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

	2018	2017
	RMB'000	*RMB'000*
Time difference for certain accruals and liabilities	**31,123**	27,243
Unused tax losses	**12,158**	8,674
Fair value adjustment	**(92,706)**	(84,612)
	(49,425)	(48,695)

18. DIVIDENDS

During the Year, the Company has declared and paid the final dividends of HK3.24 cents per share for 2017 and interim dividends of HK3.72 cents per share for 2018, totally amounting to approximately RMB129.7 million.

On March 15, 2019, a final dividend in respect of 2018 of HK3.72 cents per share was proposed by the Directors and is subject to approval by the Shareholders in the AGM.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the 2018 full-year results of the Group.

During the Year, the Group recorded revenue of RMB1,651 million, representing an increase of 11.8% compared with 2017. Net profit was RMB615.6 million, representing an increase of 11.9% compared with 2017, of which profit and comprehensive income attributable to owners was RMB488.4 million, representing an increase of 17.0% compared with 2017. The Board proposes a final dividend of HK3.72 cents per Share for 2018 to the Shareholders. Together with the interim dividend of HK3.72 cents per Share distributed during the Year, the total dividend for the full year of 2018 is HK7.44 cents per Share, which is in line with the Group's committed dividend policy to reward all investors for their support.

During the Year, the Group kept on consolidating the existing businesses. Leveraging the leading position of our well-established brand, good service reputation and high recognition from the government, we secured more opportunities for our business expansion. Meanwhile, the Group has successfully tapped into new markets by establishing footprint in the three provinces of Guizhou, Inner Mongolia and Hubei and autonomous region. Currently, we have gained a foothold in more than 30 cities in 15 provinces, autonomous regions and direct-controlled municipalities, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia and Hubei. By the end of 2018, we had 20 cemeteries and 22 funeral facilities in operation.

"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 immense room and impetus for development because of urbanization, aging population and the increasing pursuit of 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 capitals from the community 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 Chinese people's pursuit of high-quality, humane and respectable death care 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 services 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 15 provincial regions. At the same time, we enlarged our plan on the industry 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. Since 2019, we have embarked on establishing Fu Shou Yuan's own merchandise brand, by giving impetus to the research and development of new products and the re-creation of conventional goods, thereby further improving the supply chain. The synergy created by each of these segments greatly enhanced our capability in providing comprehensive services to our customers. In addition, in January 2019, the Group participated in the establishment of a Limited Partnership for funeral and cemetery buyout fund. Such cooperation maximizes each party's respective advantages in investment, financing and professional fields in China or abroad. It also forms an effective resource alignment between capital and service projects, which will assist further exploring the potential opportunities to grow, achieving more quality projects and enlarging our business map.

During the year, the Group has been exploring more business and social value of pre-need contract for funeral services and has attained sound reaction from the market. We established Fu Shou Home Life Care Community Service Centre. We provide community services to the elderly and their families regarding elderly charities, legal support, psychological aid, palliative care, etc. We also prepared pre-need funeral solution to settle farewell ceremonies for the weak groups who rely on government compensation for living. Such solution was much appreciated and brought us purchase orders. Meanwhile, we believe that, against the backdrop of aging population with fewer children, pre-need services will appeal to more customers who wish to arrange their funeral matters in advance by themselves and keep on bringing about a stable source of customers to funeral and burial segments.

During the year, the Group thrived to promote and upgrade our products and has achieved steady growth. Our environmental-friendly cremation machines obtained an invention patent issued by the State. 12 sets of cremation machines have been installed in Group's funeral parlors and external parties (a total of 15 sets of cremation machines have been installed in Group's funeral parlors and 11 sets with external parties). The installed and operating cremation machines were operating smoothly with exhaust gases complying with environmental standards. We won bids to supply cremation machines to a state-owned funeral parlour in Wuhan, Hubei Province and a funeral parlour in Shangrao, Jiangxi Province, in June and August 2018 respectively.

During the year, adhering to the Group's primary mission to make people pass away respectfully with relief and dignity, we have been active in participating in all kinds of social welfare and charitable activities, covering cultural education, public welfare, poverty alleviation, charitable fundraising, hospice care and eco-environmental protection aspects, in order to provide community services and to promote environmental-friendly and land-saving burial projects. We have been continually exploring new modes of civil services for people's welfare. In January 2018, we won three awards in the 7th China Charity Festival. In January 2019, we established "Shanghai Fu Shou Yuan Public Welfare Development Foundation" for better integration of Fu Shou Yuan's public welfare undertakings to help the poor, the disadvantaged, the aged, the widowed, the illed, and the disabled. Such foundation will enable us undertake more social responsibilities and further improve our corporate image. The Group has carried out a series of life education activities jointly with many well-known universities across the country, and has promoted industrial extension through such cultural activities.

During the year, the Group communicated with peers and organizations in Korea, Japan and Mongolia etc., to conduct field visits, foster future cooperation, and steer industrial development. In September, the plate unveiling ceremony of the "Friendship Public Cemetery" of the Group and the Bolivia Memory Park was held in Cochabamba, Bolivia. Both parties reached a preliminary mutual agreement on strategic cooperation to promote the memorial complex project in downtown Santa Cruz, Bolivia. In addition, Fu Shou Yuan Life Service Academy and NFDA from the United States have reached a preliminary intent of organizing an exchange on education resources. It has been continuously putting efforts into the training sessions towards managers and professional staffs and preaching the Group's culture and management ideology, in order to cultivate more elites for the industry and to enhance the development of death care service 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 Chief Brand Officer of the Group, was awarded the honor of "Pioneer for Patriotism Education Base of Shanghai 2016–2017". In July, the Group received the award of "2018 Influential Brand of the Industry" in the 7th China Finance Summit. In November, Shanghai Fu Shou Yuan was named the 2018 Excellent Member of the Shanghai Public Relations Association. At the 7th China Finance and Economic Summit, the Group won the "2018 Industry Impact Brand" Award. We also won the "Innovative Enterprise Award" of the 9th China Talent Development Elite Awards for our industry training implementation and talent introduction and selection. Two employees from our funeral service team in Chongqing and Hefei were awarded the First-Class Prize and Third-Class Prize from "National Talent Competition of Funeral Services" (全國殯儀服務技能大賽) respectively. During the year, the Group received a number of honors including the Group level, subsidiary level, organization level as well as individuals. Such honors reflected the progress made by the Group in regard of professional capability, brand recognition, social welfare contribution, cultural connotations, educational meanings, and innovations. Such honors also meant unanimous recognition from the society to the Group.

Ms. Yi Hua, the Chief Brand Officer was awarded as the Woman pace-setter of Shanghai, which is the highest distinction among female in Shanghai, further recognized the tremendous efforts the Group has paid over two decades in the death care industry. It is another testament, following the honour of the national honorary model of labour received by Mr. Wang Jisheng, the Chief Executive, to the significance of modern death care industry meant for the flourish of ecological civilization and the construction of spiritual civilization, altering the public's perception towards the industry service providers. As Ms. Yi Hua mentioned in the "Life Cantabile" themed speech, a city or a country shall not only be "livable", but also "heart-dwelling". The provision of death care services is a "heart-dwelling" project, which reflects conceptual values and forms the root and source for a family, a society or even a country to remain true to original aspiration, and embrace the future.

Looking at the past five years since we listed, our business expanded from 10 cities in 8 provinces to over 30 cities in 15 provinces. The number of cemeteries and funeral facilities in operation increased from 11 to 42, and 10 projects are under construction. Our revenue increased by 170%. Our profits and comprehensive income attributable to owners increased by 192%. The number of our employees has exceeded 2,200. We have made remarkable achievements through five years' development.

Looking forward, under the trend of aging population, urbanization and a rise in cremation rate, there will be an increasing demand for death care services with high expectation over the service quality. We will proactively promote the supply-side structural reform of the death care service industry, and continuously providing customers with various quality death care services. Meanwhile, we will seek opportunities to enter more cities, bring about our humanistic services, advocate traditional culture, and promote urban civilization. We will also capitalize the synergy created by each business segments and take advantage of modern cultural ideology and management expertise in order to enhance the overall service quality of death care service industry and to seek extraordinary opportunities for development along with the industry reform, and as a result, to create higher returns for our shareholders.

Fu Shou Yuan International Group Limited
Bai Xiaojiang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

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 Year, the Group, as always, continued to consolidate and explore our brand value, put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improve service quality, and offer innovative services and products. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain widespread recognition from our customers. During the Year, the Group has been proactively adjusting its business portfolio, product and service mix, sales channels, and regional revenue contribution, and has achieved continuous progress.

Through such adjustments, we optimized our strategic layout for the industry chain and strategically expanded our funeral service business. As a result, the size of our funeral services regional business and the proportion of its income have been increased. Based on our expectations regarding the development of the death care industry, we also enhanced our landscape design ability for funeral facilities, formed independent business segments, improved the synergy between segments and strengthened our all-round competitiveness. Striving to transform cemeteries into urban cultural parks, we continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while lowering traditional cemeteries so as to improve the effectiveness of land utilization. We also strengthened our sales team and self-operating channels, optimized sales channels and improved our customers' consuming experience. While achieving a steady growth in Shanghai, we also proactively increased our business growth rate in regions outside Shanghai, thus reducing our reliance on Shanghai and optimizing the regional structure of the Group's business. These adjustments helped expand our business scale while focusing on the efficiency, effects and effectiveness of each unit of our business, supporting the Group's sustainable development and improving our core competitiveness.

During the Year, the Group actively expanded its market reach. Business in the provinces where we already had coverage before has been consolidated. With the help of brand advantage, quality service reputation and the government's recognition, we were given more opportunities to expand our market reach. Meanwhile, the Group has successfully tapped into new markets by establishing footprint in 3 provincial regions of Guizhou, Inner Mongolia and Hubei. Currently, our business has entered over 30 cities in 15 provinces, autonomous regions and municipalities in the PRC including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou and Inner Mongolia and Hubei. By the end of 2018, we had 20 cemeteries and 22 funeral facilities in operation.

During the Year, 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, which as the integrated project provides both funeral and burial services in southwest China and 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, which 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 the funeral facility project in Gaoyou and the cemetery projects in Nanchang and Xuancheng were undergoing construction work according to the plan, which may start operation in 2019.

During the Year, our mergers and acquisitions continued to gain positive results. In February 2018, we acquired additional 20% equity interest in Liaoning Guanlingshan Cultural Cemetery, our total equity interest in the cemetery reached 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 established 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 acquisition of 100% equity interest in Helinge'er Anyou Cemetery in Inner Mongolia and the completion took place in August 2018. 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 August 2018, we completed the procedure of acquiring additional 25% equity interest in Wuyuan Wanshoushan Cemetery in Jiangxi Province. The cemetery has become our wholly-owned entity after completion of the transaction. In July 2018, the Group entered into an investment agreement with a cemetery in Changchun City, Jilin Province to acquire 10% of its equity interest. In December 2018, the Group entered into an agreement and started the acquisition of 80% equity interest in Tianxian Cemetery in Hubei Province. The completion of the transaction took place in January 2019, and our business made its expansion into Hubei province for the first time.

During the Year, the Group further demonstrated its competitiveness for governmental funeral projects and its capabilities in working with the government. In March 2018, we were awarded the concession to provide funeral services for ten years in a government owned funeral parlor in Xiaoshan District, Hangzhou City of Zhejiang Province. In October 2018, we once again became the winner of a public tender for the concession of building a funeral parlor and operating it for 30 years under the "BOT" mode in Linquan County, Fuyang City. In addition, the Group commenced several PPP funeral services projects for many other local governments: during the Year, we were authorized to provide and have provided funeral services in the funeral parlours of Fenghua County of Zhejiang Province and Kunshan City of Jiangsu Province; we were authorized to establish a funeral parlour in Yanshan County of Jiangxi Province and have commenced operation under the "BOT" mode, with a term of 30 years; we were also authorized to provide funeral services in the funeral parlour in Jintan City of Jiangsu Province upon its completion of construction. As for cemeteries, we reached agreements with the relevant governmental authorities in Qihe County, Shandong Province and Ganzhou City, Jiangxi Province, respectively, for co-financed projects of constructing new cemeteries during the Year.

The Group promoted pre-need contracts for funeral services and made impressive achievements during the Year. Based on more than twenty years of 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 vulnerable groups who rely on government compensation for living. Such solution was much appreciated by the vulnerable groups and brought us purchase orders, achieving 383 orders in 3 batches of collective purchase from the governments of Hefei, Nanchang, Quanzhou. 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. Our online sales platform was officially launched during the Year. Pre-need services 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. As of the end of 2018, the Group has been offering pre-need contract for funeral services in 15 cities of 10 provisional regions. We signed a total of 2,485 contracts during the Year, representing an increase of 111.7% (2017: 1,174 contracts).

During the Year, our environment-friendly cremation machines obtained an invention patent issued by the State. We installed twelve sets of new cremation machines in funeral parlours inside and outside the Group (a total of 15 cremation machines have been installed in our Group and 11 outside the Group). Those cremation machines that had been installed were all operating smoothly with exhaust gases complying with environmental standard. In June and August 2018, we won a bid to supply eight sets and one set of cremation machine to a state-owned funeral parlor in Wuhan City of Hubei Province and a funeral parlor in Hengfeng County, Shangrao City of Jiangxi Province, respectively. 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 have built up a well-balanced in terms of age and professional death care service team. This team, which bears the Group's concept, works diligently at each of our operating locations. Through their efforts, the Group is able to invent new products, enhance service quality, expand its business, and then offer more value-added services to our customers. During the Year, two employees of the Group's Chongqing and Hefei funeral team were awarded the First-Class Prize and the Third-Class Prize of "National Talent Competition of Funeral Services" (全國殯儀服務技能大賽). 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 Year, Life Service College has reached an initial agreement with the NFDA of the United States on the exchange of teaching resources and the enhancement of training exchange with first-class funeral services institutions in Japan. The College will introduce quality teaching resources from overseas so as to facilitate the Group's funeral services training, enhance standardized procedures and improve service standards of the entire industry within the country. During the year, the College co-organized the "Qingming Forum (清明論壇)" with Peking University, the "Interactive Life Education Forum (互動生命教育論壇)" with Nanhua University of Taiwan, and life education-themed activities with numerous colleges and social organizations with a view to publicizing the idea of life education in response to death-related contexts.

During the Year, we established a system management center, enhanced standardized management and informationized construction and improved the internal internet facilities of the Group. These will help us optimize operation segments, budgetary control and internal control. In addition, we monitored closely our operations to support the Group's expansion and to increase its operating efficiency. Meanwhile, self-developed cemetery business system has covered every cemetery in the Group, so will the funeral business system in 2019. Combining the marketing system of big data will enable us to go beyond the traditional operating mode. We plan to create new corporate competitiveness and consolidate our leading position in the industry by utilizing powerful online data access and management capacity as well as offline service operating capacity and its geographical influence.

As a result of the above proactive adjustments and arrangements, we achieved a double-digit growth despite a slowdown of China's economy. The Group's revenue amounted to RMB1,651.3 million, representing an increase of 11.8% when compared to 2017. We recorded RMB488.4 million in profit and comprehensive income attributable to owners of the Company, representing an increase of 17.0% when compared to last year.

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 adopted the "function of expense" method in preceding years and adopted the "nature of expense" method starting from 2018.

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.

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 the key factors that the management has mainly 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

During the Year, our revenue increased by RMB174.1 million or 11.8% to RMB1,651.3 million from RMB1,477.2 million last year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. Revenue from all three segments have increased at different rates during the Year. The following table sets forth our revenue by segment for the Year:

	2018		2017	
	Revenue *(RMB'000)*	***% of total revenue***	Revenue *(RMB'000)*	*% of total revenue*
Burial services	**1,427,123**	**86.4%**	1,300,045	88.0%
Funeral services	**197,688**	**12.0%**	157,855	10.7%
Other services	**42,825**	**2.6%**	37,138	2.5%
Inter-segment elimination	**(16,337)**	**(1.0%)**	(17,830)	(1.2%)
Total	**1,651,299**	**100.0%**	1,477,208	100.0%

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 Year:

	2018		2017	
	No. of burial plots	**Revenue** *(RMB'000)*	No. of burial plots	Revenue *(RMB'000)*
Sale of burial plot services				
Ordinary business plots	**12,509**	**1,282,247**	12,372	1,180,018
Public welfare plots and tomb relocation	**8,403**	**27,208**	10,291	10,493
	20,912	**1,309,455**	22,663	1,190,511
Other burial services		**117,668**		109,534
Total revenue from burial services	**20,912**	**1,427,123**	22,663	1,300,045

The ASP of ordinary business plots increased by 7.5% compared with last year, which was mainly attributable to our increasing service quality, expanding service scope, and enhancing cultural values included in our services. Accordingly, our value-added services are enhanced, which was demonstrated by higher prices.

During the Year, the total number of ordinary business burial plots sold slightly increased by 137 when compared to last year, representing an increase of 1.1%, which was mainly attributable to our new cemeteries from acquisitions and mergers during the Year. The following table sets forth the breakdown of revenue of sale from burial plots services for ordinary business purpose from our new (i.e. those related to acquisitions/new construction) and old (i.e. comparable cemeteries) cemeteries during the Year:

	2018		2017	
	No. of burial plots	**Revenue** ***(RMB'000)***	No. of burial plots	Revenue *(RMB'000)*
Sale of burial plots services for ordinary business purpose, from:				
Comparable cemeteries*	**11,191**	**1,231,293**	12,252	1,174,668
Cemeteries related to acquisitions/new construction	**1,318**	**50,954**	120	5,350
Total revenue from sale of burial plots services for ordinary business purpose	**12,509**	**1,282,247**	12,372	1,180,018

* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2017 to December 31, 2018.

During the year, the ASP of ordinary business plots of comparable cemeteries increased when compared to last year, but the number of sales declined when compared to last year. This was mainly due to our proactive adjustment of our operations, 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 quality of services and satisfaction from our customers. These changes are also beneficial to the healthy development of the Group in the long run.

During the Year, the number of burial plots sold for ordinary business purpose in the new cemeteries was 1,318, but their ASP was lower than those of the comparable cemeteries as these new cemeteries need time to improve their landscape, increase the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers and to increase the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals.

FUNERAL SERVICES

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

	2018		2017	
	No. of customers	**Revenue** ***(RMB'000)***	No. of customers	Revenue *(RMB'000)*
Funeral services, from:				
Comparable facilities*	**18,536**	**161,173**	18,366	152,714
Facilities related to new acquisitions/new construction	**17,955**	**36,515**	2,154	5,141
Total revenue from funeral services	**36,491**	**197,688**	20,520	157,855

* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2017 to December 31, 2018.

Our revenue from funeral services increased by RMB39.8 million or 25.2% to RMB197.7 million for the Year from RMB157.9 million for last year. Such increase was mainly due to an increase in revenue from the comparable funeral facilities and the contribution of our new funeral facilities starting from the second half of last year and during the Year. Both the ASP and service volume derived from the comparable funeral facilities increased during the Year as compared to last year. The ASP of these new funeral facilities was lower than that of the comparable funeral facilities, as most of these newly operated funeral facilities only offered basic services to their customers before our operation. These funeral facilities will provide high quality services to customers through introduction of new management and a variety of humanized funeral services after our operation. With the increased service items, improved service quality, and commencement of marketing activities, the Group's revenue from funeral services has much room to grow.

GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities under operation 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:

	2018		2017	
	Revenue *(RMB'000)*	***% of total revenue***	Revenue *(RMB'000)*	*% of total revenue*
Shanghai	**862,165**	**53.1%**	780,296	53.5%
Henan	**98,171**	**6.0%**	88,265	6.1%
Chongqing	**70,404**	**4.3%**	70,563	4.8%
Anhui	**158,072**	**9.7%**	137,334	9.4%
Shandong	**69,116**	**4.3%**	59,718	4.1%
Liaoning	**175,037**	**10.8%**	174,109	11.9%
Jiangxi	**55,071**	**3.4%**	45,924	3.2%
Fujian	**37,735**	**2.3%**	33,636	2.3%
Zhejiang	**17,359**	**1.1%**	8,341	0.6%
Jiangsu	**52,944**	**3.3%**	57,017	3.9%
Guangxi	**11,755**	**0.7%**	2,697	0.2%
Inner Mongolia	**9,958**	**0.6%**	—	—
Guizhou	**7,024**	**0.4%**	—	—
Total	**1,624,811**	**100.0%**	1,457,900	100.0%

Revenue in most regions increased during the Year mainly because of revenue contributions from newly acquired or operated cemeteries and funeral facilities, as well as the growth in revenue from comparable funeral facilities and cemeteries.

OTHER SERVICES

Revenue from other services for the Year mainly represented the revenue generated from our professional design services offered to cemeteries and funeral parlors throughout PRC and the revenue from the sales of environmental-friendly cremation machines. During the Year, we recorded revenue from design services of RMB33.5 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 in other services segment. During the Year, we also recorded revenue from the sales of cremation machines of RMB9.3 million. We believe that the cremation machine business will make considerable contribution to the Group's overall revenue in near future.

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 56.2% of our total revenue for the Year (2017: 56.6%), increased by RMB92.4 million or 11.0% from RMB836.0 million last year to RMB928.4 million. The increase in operating expenditure is mainly attributable to an increase in operating expenses of RMB84.8 million arising from newly acquired and operated cemeteries and funeral facilities during the Year. Despite an increase in revenue from other comparable facilities, there was only a slight increase in operating expenses of RMB7.6 million or 0.9% due to more refined management and effective cost control.

The Group's staff costs include staff salaries, bonuses, benefits and amortization of share option cost. During the Year, the staff costs increased by RMB46.8 million or 13.2% from RMB354.4 million last year to RMB401.2 million. The increase was mainly due to an increase in the number of employees as a result of the expansion of the Group's business footprint and enhanced effort in developing our direct sales team as well as the increase in incentives for our direct sales team. It was partially offset by a decrease in the amortization of the cost of certain share options upon expiry of vesting periods for such options.

The construction cost represents our expenditures in building burial plot products (excluding stone materials). During the Year, the product construction cost increased from RMB54.1 million last year by RMB16.0 million or 29.6% to RMB70.1 million, as we have been offering more beautiful environment, higher service quality, more timely and diversified choices to our customers.

Consumed materials and goods represent materials and goods consumed when we provide burial, funeral and other services. They also include the materials and goods consumed when we build burial plots and cremation machines. During the Year, the consumed materials and goods increased from RMB109.1 million by approximately RMB8.0 million or 7.3% to RMB117.1 million, which is mainly due to the business growth during the Year.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Year, the marketing and sales channel costs decreased by RMB17.9 million or 29.0% to RMB43.9 million from RMB61.8 million last year. Such decrease was mainly attributable to the optimization of our sales channel in certain regions, enhancement of our direct sales team to ensure the systematicness and high quality of our services, and commission policy adjustment to gradually reduce the reliance on external sales agents.

During the Year, depreciation and amortization increased by RMB18.0 million or 24.1% to RMB92.7 million from RMB74.7 million last year, which is mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from the second half of last year.

Other general operating expenditures increased by RMB18.5 million or 15.6% to RMB137.7 million compared to last year, which is mainly due to expenditures from the newly acquired and operated burial and funeral facilities during the Year.

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, our operating profit increased by 12.7% or RMB81.7 million to RMB722.9 million for the Year from RMB641.2 million for last year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Year:

	2018		2017	
	Operating Profit *(RMB'000)*	***Operating Profit Margin***	Operating Profit *(RMB'000)*	*Operating Profit Margin*
Burial services	**712,773**	**49.9%**	620,347	47.7%
Funeral services	**19,858**	**10.0%**	27,419	17.4%
Other services	**(9,098)**	**(21.2%)**	(1,988)	(5.4%)
Inter-segment elimination	**(639)**	**3.9%**	(4,612)	25.9%
Total	**722,894**	**43.8%**	641,166	43.4%

During the Year, the operating profit margin of burial services increased to 49.9% from 47.7% for the last year mainly because of higher ASP of burial plots sold and effective cost control.

The new funeral facilities contributed the majority of the revenue growth of funeral services during the Year. These new facilities provide both basic funeral services and value-added funeral services. As most of these new funeral facilities are still in their initial stage of development, it takes time for them to steadily enhance their services and for their customers to know and then purchase their value-added services. Therefore, the profit margin of funeral facilities was dragged down by the new ones. As a result, the operating profit margin of funeral service segment decreased to 10.0% for the Year from 17.4% for the last year. We expect that these new funeral facilities will increase their ASP, service volume and profitability in future.

During the Year, other service segment recorded an operating loss of RMB9.1 million which was mainly due to the operating costs incurred for cremation machines during the trial sale period. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening the rules and regulations on environmental protection by the government. The subsidiary, which offers design services was newly acquired in the second half of last year and has delivered satisfactory results during the Year, but it is still not sufficient to turn the whole segment of other services to be profitable.

FINANCE COSTS

Finance costs for the Year consisted of interest expenses of RMB5.0 million on bank loans (2017: RMB6.0 million), and interest expenses of RMB3.1 million (2017: RMB9.6 million) on loans from non-controlling shareholders of certain subsidiaries.

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

OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses for the Year mainly include interest income, government grants received, exchange gains and losses, losses from assets disposal, donations and etc.

INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Year was 20.5% (2017: 19.7%). The difference between the standard tax rate of 25% and the effective tax rate of 20.5% for the Year 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 to relevant Hong Kong tax rules; (iii) certain subsidiaries enjoy a tax deduction on exercise of share options by their employees as agreed by 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 increased by RMB24.5 million, or 18.2%, to RMB159.1 million for the Year from RMB134.6 million last year, mainly due to the increase of profit before tax as a result of business growth and the combined effects of the above factors during the Year.

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As mentioned above, our profit and total comprehensive income attributable to owners of the Company increased by approximately RMB71.0 million, or 17.0%, to RMB488.4 million for the Year from RMB417.4 million for last year. This increase was primarily due to: (i) the overall growth of our revenue by 11.8%; (ii) the effective cost controls resulting in the stable increase of operating profit margin; and (iii) the more effective fund management.

CASH FLOW

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

	2018	2017
	(RMB'000)	*(RMB'000)*
Net cash generated from (used in)		
— operating activities	**769,316**	648,172
— investing activities	**(1,120,260)**	134,672
— financing activities	**(92,397)**	(84,758)
Total	**(443,341)**	698,086

* An amount of RMB98.8 million related to the payment for cemetery land acquisition was here classified under the cash used in investing activities, instead of cash used in operating activities. This classification does not comply with International Financial Reporting Standards, however the management considers that this classification can reflect better the nature of the Group's business and can make the information disclosed more comparable.

We generated our cash from operating activities primarily from proceeds of our death care service businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, and other operating expenditures. Our net cash generated from operating activities amounted to RMB769.3 million for the Year, representing an increase of RMB121.1 million or 18.7% as compared to last year, maintaining our sharpness as always in generating cash from our operating activities.

During the Year, we used net cash of RMB1,120.3 million in investing activities. It was primarily due to: (i) net increase of time deposits and other financial assets of RMB644.7 million; (ii) payment of RMB307.4 million to acquire subsidiaries and other investments; (iii) payment of RMB113.5 million to acquire land use rights, including a piece of land for cemetery development purpose located in Nanchang City of Jiangxi Province, a piece of land for cemetery development purpose and another piece of land for funeral parlor construction purpose located in Xuancheng City of Anhui Province, and a piece of land for cemetery development purpose located in Qinzhou City of Guangxi Autonomous

Region; (iv) payment of RMB76.6 million to build new burial and funeral facilities in Bishan District of Chongqing Municipality, Xuancheng City of Anhui Province, Zheng'an County, Zunyi City of Guizhou Province, Nanchang City and Yanshan County of Shangrao City in Jiangxi Province and Dafeng District of Yancheng City in Jiangsu Province; and (v) capital expenditures of RMB26.8 million for upgrades and maintenance in other cemeteries and funeral facilities. Such cash outflows were partially offset by interest received of RMB54.4 million.

Our net cash used in financing activities amounted to RMB92.4 million for the Year. It was primarily due to: (i) final dividends for 2017 and interim dividends for 2018 paid to shareholders of the Company of RMB129.7 million, (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB114.5 million, (iii) interest payment of RMB15.7 million for our borrowings, and (iv) a net decrease of RMB9.2 million of bank borrowings. These cash outflows were partially offset by: (i) the proceeds of RMB158.1 million received upon exercise of share options by our employees; and (ii) the net capital and loan contribution from the non-controlling shareholders of certain of our non-whole owned subsidiaries totaled at RMB18.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2018, we had bank balances and cash of RMB1,493.7 million (December 31, 2017: RMB1,937.0 million), time deposits of RMB48.3 million (December 31, 2017: RMB10.0 million) and financial assets of RMB577.4 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.

We had outstanding bank borrowings of RMB103.9 million as at December 31, 2018. Of this outstanding balance, RMB75.0 million is repayable within one year, RMB15.0 million is repayable within two years and RMB13.9 million is repayable within three years. These borrowings were dominated in RMB and were subject to floating interest rates ranging from 4.35% to 4.998% per annum. As at December 31, 2018, a non-wholly owned subsidiary of the Group had a loan of RMB32.0 million due to its non-controlling shareholder. The interest rate of the loan was 5.655% per annum without a specific repayment schedule. Another non-wholly owned subsidiary of the Group also had a loan of RMB27.0 million due to its non-controlling shareholder. Such loan is repayable within one year with interest rate at 4.35% per annum.

In addition, we had undrawn bank borrowing facilities of approximately RMB2,346.1 million as at December 31, 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 at December 31, 2018 was 4.0% (December 31, 2017: 4.6%). Our operation has been lightly leveraged because of our good cash generating capability from our operating activities. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not anticipate our gearing ratio will substantially increase considering the balance of bank and cash on hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The Group conducts its businesses in the PRC and its functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed the Group to foreign currency risk. As at December 31, 2018, the financial assets, time deposits, bank balances and cash held in RMB, HK$ and US$ accounted for 94.9%, 3.5% and 1.6% respectively, of the total amount of these assets. We believe the current level of financial assets, time deposits, bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management controls foreign currency risk by strictly managing the size of foreign currency risk exposure and closely observing the movement of foreign currency rates. We may, if necessary, hedge against foreign currency risk using financial instruments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 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 February 12, 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. The acquisition was completed in August 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 May 4, 2018.

In May 2018, we acquired 80% equity interest in Guizhou Tianyuanshan at a consideration of RMB41.8 million and a further capital injection of RMB30.2 million 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. The acquisition was completed in August 2018.

In July 2018, we made a capital injection of RMB29.0 million to a cemetery in Changchun City, Jilin Province to acquire its 10% equity interest. It mainly provides burial services in Changchun City of Jilin Province.

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

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2018, we had 2,235 full-time employees (December 31, 2017: 1,836). We offer competitive packages and benefits to our staff. We also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of acquisition of subsidiaries, land use rights, other investments, cemetery assets and property and equipment in a total amount of approximately RMB144 million as at December 31, 2018. We also planned to provide approximately RMB335 million for the construction of new cemeteries and funeral facilities in Xuancheng City, Qinzhou City, Nanchang City, Ganzhou City, Gaoyou City, Qihe County of Shandong Province and Fuyang City.

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

ASSETS PLEDGED

As at December 31, 2018, we pledged 80% equity interest in Changzhou Qifengshan Cemetery to secure the bank borrowings granted to finance the acquisition of this subsidiary. Except for that, no other assets of the Group were pledged or charged.

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.20 million sq.m. as at December 31, 2018 (December 31, 2017: approximately 1.96 million sq.m.), which was sufficient to satisfy the needs of the Group's sustainable operation in the long run. When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for construction of tombs, such as the areas in connection with business centres, office buildings, landscaping and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time.

CONTINGENT LIABILITIES

As disclosed in our announcements dated January 8, 2016 and January 23, 2017, 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 the end of year 2017, with two outstanding lawsuits remaining. There has been no notifiable progress on these two lawsuits during the Year. Their status remains substantially unchanged from those set out in our latest announcement on the matter. An aggregate of claim amount of approximately RMB43.2 million was involved in these two lawsuits. Furthermore, the plaintiffs in the other two lawsuits which had been closed, lodged appeal to higher level courts in the second half of 2018, with an aggregate of claim amount of approximately RMB11.3 million. Therefore, as at December 31, 2018, there were four lawsuits outstanding, with an aggregate of claim amount of approximately RMB54.5 million (including the claimed principal and contingent interests).

We are still in the process of taking all necessary steps, including by close cooperation with the public security department, in reversing the judgements and vigorously defending against the proceedings. As of December 31, 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.

EVENTS AFTER THE REPORTING PERIOD

On January 22, 2019, a wholly-owned subsidiary of the Group entered into a limited partnership agreement with Yongying and Linxin in respect of the setting up of a funeral and cemetery buyout fund and the subscription of interests therein. Pursuant to the limited partnership agreement, the total capital commitment to the limited partnership fund is RMB800.2 million and each of Yongying, the Group and Linxin has committed to contribute RMB400 million, RMB399.2 million and RMB1 million to the limited partnership fund, respectively. Meanwhile, the Group and Yongying entered into a shortfall supplement agreement. For more details, please refer to our announcement dated January 22, 2019.

PROSPECTS

Looking ahead, we will continue to do our best in the death care industry in China, leading the industry revolution and improving services quality by continuous innovation and giving more respect, as well as cultural, environmental, technological, and charitable connotation to death care services. We will adhere to our 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 to cater for more people's need for high quality death care services. We will push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business, we will consolidate newly acquired businesses and raise their standards on a par with ours. Meanwhile, we will strive to make our cremation machine business become an important segment of the Group's business. With much effort to promoting pre-need business with the pre-need contract business as the core and innovative ideas in our collaboration with local governments, we will strive to increase the percentage of our funeral services in the Group's business and the scale of professional design business, and foster the integration with the internet to improve service contents and accessibility. Last but not least, while promote growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at a more steady and sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our investors with the best returns.

ANNUAL GENERAL MEETING

The AGM will be held on Monday, May 20, 2019 and the notice of AGM is expected to be published and despatched to the Shareholders on or about Monday, April 15, 2019.

FINAL DIVIDEND

The Board recommend the payment of a final dividend of HK3.72 cents per Share for the year ended December 31, 2018 (2017: HK3.24 cents), which is subject to the approval by the Shareholders at the AGM. The final dividend is expected to be payable to the Shareholders on Monday, June 10, 2019. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, May 30, 2019.

CLOSURES OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Wednesday, May 15, 2019 to Monday, May 20, 2019, both days inclusive. During the above period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, May 14, 2019.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Tuesday, May 28, 2019 to Thursday, May 30, 2019, both days inclusive. During the above period, no transfer of Share will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the Shareholders at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, May 27, 2019.

DIRECTOR'S SECURITIES TRANSACTIONS

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

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

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

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

PUBLICATION OF ANNUAL RESULTS AND 2018 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fsygroup.com). The 2018 annual report will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

"AGM"	the annual general meeting of the Company to be held on Monday, May 20, 2019
"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.* (常州棲鳳山國際人文陵園有限公司), 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 announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Chongqing Anle Funeral Services"	Chongqing Anle Funeral Services Co., Ltd.* (重慶安樂殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Chongqing Anle Services"	Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company

"Chongqing Baitayuan"	a cemetery in Yongchuan of Chongqing Municipality and operated by Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Company" or "Fu Shou Yuan"	Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands
"Director(s)"	the director(s) of the Company
"EIT Law"	the Law of the PRC on Enterprise Income Tax
"FSY Hong Kong"	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
"Group", "our Group", "us", "we" or "Fu Shou Yuan Group"	the Company and its subsidiaries
"Guangxi Huazuyuan Cemetery"	a cemetery in Fangchenggang City of Guangxi Zhuang Autonomous Region and operated by Guangxi Huazuyuan Investment Co., Ltd.* (廣西華祖園投資有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2018
"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
"Henan Fu Shou Yuan"	a cemetery in Longhu Town, Zhengzhou of Henan Province (河南省新鄭市龍湖鎮) and operated by Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hubei Tianxian Cemetery"	a cemetery in Wuhan of Hubei Province, a limited company established under the laws of the PRC and became a subsidiary of the Company since January 2019
"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
"Last Year"	the year ended December 31, 2017
"Linxin"	Shanghai Linxin Asset Management Co., Ltd. (上海臨信資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會)
"Listing"	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 2018
"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
"RMB"	Renminbi yuan, the lawful currency of the PRC
"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$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Temshine"	Beijing Tian Quan Jia Jing Cemetery Construction & Design Co., Ltd.* (北京天泉佳境陵園建築設計有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since August 2018
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollar"	United Stated dollars, the lawful currency of the United States

"Wuyuan Wanshoushan Cemetery"	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Xiyuan Fu Shou Yuan"	Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd.* (重慶西苑福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Year"	year ended December 31, 2018
"Yongying"	Yongying Asset Management Co., Ltd.* (永贏資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會), the investment made by Yongying in the Limited Partnership for and on behalf of Yongying Asset — Yonghui Phase II special Asset Management Plan (永贏資產 — 甬匯二期專項資產管理計畫)
"Zaozhuang Shanting Xingtai"	Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"%"	per cent.

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

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

Hong Kong, March 15, 2019

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