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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

2019 INTERIM RESULTS HIGHLIGHTS

- Total revenue for the six months ended June 30, 2019 amounted to approximately RMB911.7 million, representing an increase of approximately 15.5% when compared to that of the six months ended June 30, 2018.

- Profit and total comprehensive income attributable to owners of the Company for the six months ended June 30, 2019 amounted to approximately RMB296.9 million, representing an increase of approximately 13.3% when compared to that of the six months ended June 30, 2018.

- Basic earnings per Share for the six months ended June 30, 2019 amounted to approximately RMB13.3 cents, representing an increase of approximately 10.8% when compared to that of the six months ended June 30, 2018.

- The Board has declared an interim dividend of HK4.21 cents per Share for the six months ended June 30, 2019.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the unaudited consolidated financial results of the Group for the six months ended June 30, 2019 together with the comparative figures for the same period of last year as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2019

	NOTES	**June 30, 2019** ***RMB'000*** **(Unaudited)**	December 31, 2018 *RMB'000* (Audited)
Non-current assets			
Property and equipment	8	**550,654**	545,000
Prepaid lease payments		**—**	34,072
Investment property		**6,509**	6,509
Intangible assets		**81,521**	21,643
Right-of-use assets		**132,385**	—
Goodwill	9	**441,581**	428,021
Financial assets at fair value through profit or loss	14	**29,761**	29,761
Deposits paid for acquisition of land use rights		**9,054**	19,655
Cemetery assets	10	**1,502,695**	1,415,849
Investments in associates		**5,738**	750
Investment in a joint venture		**1,000**	—
Restricted deposits		**52,578**	46,852
Deferred tax assets	19	**50,918**	45,377
Other long-term assets		**6,050**	25,339
		2,870,444	2,618,828
Current assets			
Inventories	11	**472,676**	448,003
Trade and other receivables	12	**59,096**	51,504
Financial assets at fair value through profit or loss	14	**442,675**	577,420
Time deposits	15	**106,378**	48,298
Bank balances and cash	13	**1,614,278**	1,493,651
		2,695,103	2,618,876
Current liabilities			
Trade and other payables	16	**369,012**	434,296
Contract liabilities	18	**39,955**	35,442
Loans from non-controlling shareholders of subsidiaries		**26,950**	26,950
Income tax liabilities		**144,347**	143,927
Lease liabilities		**17,078**	—
Borrowings	17	**95,000**	75,000
		692,342	715,615
Net current assets		**2,002,761**	1,903,261
Total assets less current liabilities		**4,873,205**	4,522,089

	NOTES	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Non-current liabilities			
Contract liabilities	18	**315,484**	301,801
Other long-term liabilities		**20,951**	13,774
Loans from non-controlling shareholders of subsidiaries		**25,143**	31,969
Borrowings	17	**21,360**	28,860
Lease liabilities		**71,317**	—
Deferred tax liabilities	19	**94,070**	94,802
		548,325	471,206
Net assets		**4,324,880**	4,050,883
Capital and reserves			
Share capital		**136,168**	134,920
Reserves		**3,670,054**	3,377,511
Equity attributable to owners of the Company		**3,806,222**	3,512,431
Non-controlling interests		**518,658**	538,452
Total equity		**4,324,880**	4,050,883

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

Due to the adoption of "*IFRS 16-Lease*", the Group recognized lease liabilities and relevant right-of-use assets of RMB88.5 million on January 1, 2019. Other than that, the application of the amendments to IFRSs in the Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property 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. Certain contract price for the cemetery maintenance services is based on a nominal amount, which does not represent the fair value of such services. The Group estimates the fair value of the cemetery maintenance services income to be deferred based on the expected cost of providing such cemetery maintenance services plus a reasonable margin, less total future maintenance fees to be received.

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

4. SEGMENT INFORMATION

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

	For the six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Burial Services	**772,288**	687,977
Funeral services	**128,256**	91,777
Other services	**16,085**	15,914
Inter-segments elimination	**(4,905)**	(6,453)
	911,724	789,215

Geographical information

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

	For the six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Shanghai	**442,944**	395,063
Henan	**56,778**	51,974
Chongqing	**34,894**	37,775
Anhui	**94,341**	78,062
Shandong	**40,286**	34,681
Liaoning	**95,497**	89,856
Jiangxi	**39,477**	25,185
Fujian	**24,344**	19,975
Zhejiang	**14,982**	6,816
Jiangsu	**34,098**	32,523
Guangxi	**8,177**	5,485
Inner Mongolia	**6,547**	1,065
Guizhou	**8,062**	1,294
Hubei	**117**	—
	900,544	779,754

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

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

6. INCOME TAX EXPENSE

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

Under EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the Period with the exception of certain subsidiaries, which are subject to a lower concessionary income tax rate of 15% effective until 2020 as they are located in specific provinces of Western China, and certain subsidiaries regarded as a small entity subject to lower income tax rate of 10% during the Period.

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 Period.

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:

	For the six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share *(RMB'000)*	**296,913**	262,088
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,228,885,941**	2,180,894,303
Effect of dilutive potential ordinary shares:		
Share options	**17,497,867**	50,594,597
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,246,383,808**	2,231,488,900

8. PROPERTY AND EQUIPMENT

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Buildings	**317,042**	315,602
Leasehold improvements	**18,004**	18,219
Furniture, fixtures and equipment	**46,528**	47,889
Motor vehicles	**13,547**	15,117
Construction in progress	**155,533**	148,173
	550,654	545,000

9. GOODWILL

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

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Haigang Fu Shou Yuan	**9,595**	9,595
Jinzhou Maoshan Anling	**3,738**	3,738
Henan Fu Shou Yuan	**14,769**	14,769
Chongqing Baitayuan	**47,458**	47,458
Meilin Century Cemetery	**18,899**	18,899
Guanlingshan Cultural Cemetery	**47,245**	47,245
Wuyuan Wanshoushan Cemetery	**36,107**	36,107
Anyang Tianshouyuan Cemetery	**2,425**	2,425
Changzhou Qifengshan Cemetery	**87,425**	87,425
Zaozhuang Shanting Xingtai	**22,973**	22,973
Luoyang Xianhe Cemetery	**23,451**	23,451
Temshine	**23,433**	23,433
Guangxi Huazuyuan Cemetery	**22,756**	22,756
Chaoyang Longshan Cemetery	**12,903**	12,903
Guizhou Tianyuanshan	**19,123**	19,123
Helinge'er Anyou Cemetery	**35,721**	35,721
Hubei Tianxian Cemetery	**13,560**	—
	441,581	428,021

10. CEMETERY ASSETS

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

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

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

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

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

11. INVENTORIES

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**8,702**	10,207
More than one year but not exceeding two years	**1,478**	—
More than two years but not exceeding three years	**3,360**	4,571
	13,540	14,778

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 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:

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest rate per annum		
— RMB	**0.35%–3.50%**	0.35%–4.35%
— HK$	**0.01%**	0.01%–2.45%
— US$	**0.05%–1.20%**	0.05%

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

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

During the Period, the Group entered into a number of cash management products as part of its treasury management. The cash management products have been accounted for financial assets at FVTPL on initial recognition. In the opinion of the Directors, the fair value of the cash management products at June 30, 2019 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant.

In July 2018, the Group has made an equity investment in Changchun Huaxia Cemetery in the amount of RMB29,000,000, accounting for 10% of the total equity interests and this equity investment was measured at FVTPL. Changchun Huaxia Cemetery is an unlisted company providing burial services in Changchun City of Jilin Province. In the opinion of the Directors, the fair value was about RMB29.8 million as at June 30, 2019. We received dividend of RMB767,000 from Changchun Huaxia Cemetery during the Period.

15. TIME DEPOSITS

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
RMB-denominated	**106,378**	48,298

As of June 30, 2019, the Group had fixed-term deposits in banks in the PRC with maturities ranging from six months to one year. The deposits carry fixed interest rates from 1.937% to 3.700% per annum (December 31, 2018: fixed interest rates from 1.920% to 1.937% per annum).

16. TRADE AND OTHER PAYABLES

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

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

	June 30, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0–90 days	**90,944**	62,467
91–180 days	**13,183**	17,485
181–365 days	**21,042**	15,139
Over 365 days	**42,283**	70,302
	167,452	165,393

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

17. BORROWINGS

	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Bank borrowings		
— Secured by the Group's equity interest in subsidiaries	**36,360**	43,860
— Unsecured	**80,000**	60,000
	116,360	103,860
Bank borrowings:		
Within one year	**95,000**	75,000
More than one year but not exceeding two years	**15,000**	15,000
More than two years but not exceeding five years	**6,360**	13,860
	116,360	103,860

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

18. CONTRACT LIABILITIES

	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Cemetery maintenance services	**344,372**	326,496
Sales of pre-need contracts	**11,067**	10,747
	355,439	337,243

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 amount of total deferred income. Total deferred income is allocated to the individual transaction to determine the amount of 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.

19. DEFERRED TAXATION

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

	June 30, 2019 *RMB'000* **(Unaudited)**	December 31, 2018 *RMB'000* (Audited)
Time difference for certain accruals and liabilities	**33,419**	31,123
Unused tax losses	**15,419**	12,158
Fair value adjustment	**(91,990)**	(92,706)
	(43,152)	(49,425)

20. DIVIDENDS

During the Period, the Company has declared and paid the final dividend of HK3.72 cents per Share for 2018, amounting to approximately RMB73.3 million in total.

On August 9, 2019, an interim dividend in respect of the six months ended June 30, 2019 of HK4.21 cents per Share was declared by the Board.

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

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

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

BUSINESS COMMENTARY

During the Period, the Group, as always, continued to consolidate and explore its brand value, put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improve service quality, and offer innovative services and products. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain widespread recognition from our customers.

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

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

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

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

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

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

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

REVENUE

During the Period, our revenue increased by RMB122.5 million or 15.5% to RMB911.7 million from RMB789.2 million of the same period of last year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. The following table sets forth our revenue by segment for the Period:

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

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

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

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

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

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

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

FUNERAL SERVICES

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

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

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

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

GEOGRAPHIC INFORMATION

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

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

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

OTHER SERVICES

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

OPERATING EXPENDITURE

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

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

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

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

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

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

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

OPERATING PROFIT AND OPERATING PROFIT MARGIN

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

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

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

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

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

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

FINANCE COSTS

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

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

OTHER INCOME, GAINS AND LOSSES

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

INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Period was 22.1% (the same period of last year: 17.5%). The difference between the standard tax rate of 25% and the effective tax rate of 22.1% for the Period can be attributable to the following factors: (i) certain subsidiaries in western regions of China are subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions; (ii) certain subsidiaries were recognized as micro and small enterprises and were subject to a lower income tax rate of 10% according to relevant tax reduction policies; (iii)our interest income earned from bank deposits placed in Hong Kong is free from any income tax according to relevant Hong Kong tax rules; (iv) certain subsidiaries enjoy a tax deduction on exercise of share options by their employees as agreed by relevant tax authorities; and (v) the Group reverses certain prior year tax provisions when tax uncertainties on such provisions have been resolved during the Period.

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

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

CASH FLOW

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as at June 30, 2019 was 3.9% (December 31, 2018: 4.0%). Our operation has been lightly leveraged because of our good cash generating capability from our operating activities. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not anticipate our gearing ratio will substantially increase considering the balance of bank and cash on hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

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

EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2019, we had 2,287 full-time employees (December 31, 2018: 2,235). We offer competitive packages and benefits to our staff. We also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

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

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

ASSETS PLEDGED

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

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.30 million sq.m. as at June 30, 2019 (December 31, 2018: approximately 2.20 million sq.m.), which was sufficient to satisfy the needs of the Group's sustainable operation in the long run. When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for construction of tombs, such as the areas in connection with business centres, office buildings, landscaping and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time.

CONTINGENT LIABILITIES

As disclosed in our previous announcements, one of our subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. We had closed most of the lawsuits without substantial losses by the end of year 2018, with four outstanding lawsuits remaining. There has been no notifiable progress on these four lawsuits during the Period. Their status remains substantially unchanged from those set out in our latest announcement on the matter. The aggregate of claim amount of such four lawsuits was approximately RMB57.1 million (including the claimed principal and contingent interests).

We are still in the process of taking all necessary steps, including by close cooperation with the public security department, in reversing the judgements and vigorously defending against the proceedings. As of June 30, 2019, after taking into account of the legal opinion and the current status of the proceedings and investigation, the Directors were of the view that the proceedings would in the end result in a material adverse impact on the financial position and business operation of the Group was not probable and concluded that no provision should necessarily be made. However, given the nature of the proceedings, it would be impossible to predict the outcome of the proceedings with a sufficient degree of certainty.

EVENTS AFTER THE REPORTING PERIOD

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

PROSPECTS

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

INTERIM DIVIDEND

The Board has declared an interim dividend of HK4.21 cents per Share for the six months ended June 30, 2019 (2018: HK3.72 cents per Share). The interim dividend is expected to be payable to the Shareholders on Friday, October 11, 2019. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Monday, September 9, 2019. It is expected that we will keep a relatively stable dividend payout ratio in the future. However, we will also review and assess the dividend policy periodically.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, September 5, 2019 to Monday, September 9, 2019, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, September 4, 2019.

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 six months ended June 30, 2019.

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

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to achieving high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of opinion that the Company has complied with the code provisions as set out in the CG Code throughout the six months ended June 30, 2019.

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

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

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2019 has been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 -"Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor will be included in the Interim Report of the Company to be despatched to the Shareholders.

The Audit Committee, comprising two independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee) and Mr. Luo Zhuping, and one non-executive Director, namely, Mr. Huang James Chih-cheng, has reviewed together with the management the accounting principles and policies adopted by the Group, and the Group's unaudited interim results for the six months ended June 30, 2019.

PUBLICATION OF INTERIM RESULTS AND 2019 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fsygroup.com). The interim report for the six months ended June 30, 2019 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

"Anyang Tianshouyuan Cemetery"	a cemetery in Anyang of Henan Province and operated by Anyang Wulong Civil Service Co., Ltd.* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"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
"Changchun Huaxia Cemetery"	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of the PRC
"Changzhou Qifengshan Cemetery"	a cemetery in Changzhou City of Jiangsu Province and operated by Changzhou Qifengshan International Cemetery Co., Ltd.* (常州棲鳳山國際人文陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"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 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

"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
"Linxin"	Shanghai Linxin Asset Management Co., Ltd. (上海臨信資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
"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
"Period"	the six months ended June 30, 2019
"RMB"	Renminbi yuan, the lawful currency of the PRC
"same period of last year"	the six months ended June 30, 2018
"Shanghai Fu Shou Yuan"	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Share(s)"	ordinary share(s) with a nominal value of US$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Temshine"	Beijing Tian Quan Jia Jing Cemetery Construction & Design Co., Ltd.* (北京天泉佳境陵園建築設計有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since August 2018
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" 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
"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)
"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, August 9, 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.