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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, 2021

2021 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the Year amounted to approximately RMB2,325.8 million, representing an increase of approximately 22.9% compared to that of Last Year.
- Profit and total comprehensive income attributable to owners of the Company for the Year amounted to approximately RMB720.0 million, representing an increase of approximately 16.1% compared to that of Last Year.
- Basic earnings per Share for the Year amounted to approximately RMB31.6 cents, representing an increase of approximately 15.3% compared to that of Last Year.
- The Board has recommended the payment of a final dividend of HK5.64 cents per Share for the Year.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the audited consolidated financial results of the Group for the year ended December 31, 2021 together with the comparative figures for Last Year as set out below. The consolidated financial results are audited by the external auditor and have been reviewed by the Audit Committee.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED DECEMBER 31, 2021

	<i>NOTES</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	4	2,325,848	1,892,537
Operating expenditures			
Staff costs		(469,616)	(385,805)
Construction costs		(167,358)	(76,495)
Consumed materials and goods		(177,538)	(149,109)
Outsourced service costs		(53,122)	(52,906)
Marketing and sales channel costs		(43,986)	(36,072)
Depreciation and amortization		(146,734)	(136,713)
Other general operating expenditures		(197,643)	(133,406)
Inventory changes		28,448	5,872
Impairment losses under expected credit loss model, net of reversal		(3,821)	—
Profit from operations		1,094,478	927,903
Other income, gains and losses		103,580	61,707
Share of (loss)/profit of joint ventures		(11,577)	4
Finance costs		(7,246)	(9,525)
Profit before taxation	5	1,179,235	980,089
Income tax expense	6	(289,591)	(222,784)
Profit and total comprehensive income for the year		<u>889,644</u>	<u>757,305</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		720,033	620,064
Non-controlling interests		169,611	137,241
		<u>889,644</u>	<u>757,305</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
— Basic	7	<u>31.6</u>	<u>27.4</u>
— Diluted	7	<u>31.6</u>	<u>27.3</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

	<i>NOTES</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current assets			
Property and equipment	8	582,636	567,924
Right-of-use assets		115,122	126,464
Investment property		6,509	6,509
Intangible assets		266,335	182,626
Goodwill	9	1,048,660	860,637
Financial assets at fair value through profit or loss	15	38,110	38,110
Deposits paid for acquisition of leasehold land as cemetery assets		27,454	89,404
Cemetery assets	11	1,937,662	1,798,059
Investment in associates		5,750	750
Investments in joint ventures	10	190,249	50,709
Restricted deposits		69,379	61,403
Deferred tax assets	20	76,630	57,865
Other long-term assets		5,000	5,000
		<u>4,369,496</u>	<u>3,845,460</u>
Current assets			
Inventories	12	544,487	502,263
Trade and other receivables	13	159,624	113,503
Financial assets at fair value through profit or loss	15	965,973	982,927
Time deposits	16	285,677	—
Bank balances and cash	14	1,075,606	1,234,022
Contract assets		4,587	—
		<u>3,035,954</u>	<u>2,832,715</u>
Current liabilities			
Trade and other payables	17	761,339	648,760
Lease liabilities		17,276	21,206
Contract liabilities	19	72,508	55,876
Loans from non-controlling shareholders of subsidiaries		27,184	35,919
Income tax liabilities		202,880	160,275
Borrowings	18	—	13,860
		<u>1,081,187</u>	<u>935,896</u>
Net current assets		<u>1,954,767</u>	<u>1,896,819</u>
Total assets less current liabilities		<u>6,324,263</u>	<u>5,742,279</u>

	<i>NOTES</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current liabilities			
Contract liabilities	19	434,022	377,035
Lease liabilities		44,140	51,767
Other long-term liabilities		36,713	32,992
Deferred tax liabilities	20	137,068	138,399
		<u>651,943</u>	<u>600,193</u>
Net assets		<u>5,672,320</u>	<u>5,142,086</u>
Capital and reserves			
Share capital		142,179	141,510
Reserves		4,901,261	4,426,371
		<u>5,043,440</u>	<u>4,567,881</u>
Equity attributable to owners of the Company		5,043,440	4,567,881
Non-controlling interests		628,880	574,205
		<u>5,672,320</u>	<u>5,142,086</u>
Total equity		<u>5,672,320</u>	<u>5,142,086</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is an exempted company with limited liability incorporated on January 5, 2012 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 Ocorian Trust (Cayman) Limited at Windward 3, Regatta Office Park, P.O. Box 1350, 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 (“IFRSs”) that are mandatorily effective for the Year.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments 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 and services.

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 recognised 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 recognised during the period of service. 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 recognised when services are provided.

4. REVENUE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Burial services	1,907,676	1,579,143
Funeral services	331,970	252,938
Other services	104,669	84,072
Inter-segment elimination	<u>(18,467)</u>	<u>(23,616)</u>
	<u>2,325,848</u>	<u>1,892,537</u>

Geographical information

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Shanghai	997,379	860,062
Henan	124,785	122,959
Chongqing	91,423	76,967
Anhui	213,450	177,233
Shandong	98,855	94,232
Liaoning	191,793	153,949
Jiangxi	122,731	93,764
Fujian	48,821	37,983
Zhejiang	43,793	36,117
Jiangsu	111,443	81,212
Guangxi	19,210	17,975
Inner Mongolia	17,600	15,569
Guizhou	52,387	32,234
Hubei	801	719
Heilongjiang	88,951	30,498
Gansu	<u>16,224</u>	<u>608</u>
	<u>2,239,646</u>	<u>1,832,081</u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Staff costs, including Directors' remuneration:		
Salaries, wages, bonus and other benefits	437,887	377,487
Contributions to retirement benefits schemes	31,729	6,711
Share-based payment expenses	—	1,607
	<hr/>	<hr/>
Total staff costs	469,616	385,805
	<hr/>	<hr/>
Depreciation of property and equipment	51,321	52,290
Amortisation of intangible assets	9,318	7,101
Amortisation of cemetery assets	62,293	54,122
Depreciation of right-of-use assets	23,802	23,200
Auditor's remuneration	4,100	3,500
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6. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
PRC Enterprise Income Tax		
Current year	316,708	234,313
Over provision in prior years	(2,825)	(3,807)
Deferred tax	(24,292)	(7,722)
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	289,591	222,784
	<hr/> <hr/>	<hr/> <hr/>

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:

	2021	2020
Earnings		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	<u>720,033</u>	<u>620,064</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,278,490,319	2,263,069,730
Effect of dilutive potential ordinary shares:		
Share options	<u>94,842</u>	<u>11,224,479</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,278,585,161</u></u>	<u><u>2,274,294,209</u></u>

8. PROPERTY AND EQUIPMENT

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	369,669	373,240
Leasehold improvements	9,680	14,272
Furniture, fixtures and equipment	51,177	51,759
Motor vehicles	13,637	11,478
Construction in progress	<u>138,473</u>	<u>117,175</u>
	<u><u>582,636</u></u>	<u><u>567,924</u></u>

9. GOODWILL

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
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
Heling'er Anyou Cemetery	35,721	35,721
Hubei Tianxian Cemetery	13,560	13,560
Jinsha Fuze	66,176	66,176
Harbin Mingxiyuan Cemetery	352,880	352,880
Anhui Longmen Cemetery	90,673	—
Heze Fuluyuan	96,237	—
Zhengzhou Anletang	1,113	—
	<u>1,048,660</u>	<u>860,637</u>

10. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures include the contributions of RMB202.0 million (carrying amount: RMB 190.2 million) to Jiaxing Fuji Equity Investment Partners Corporation (Limited Partnership) (嘉興福冀股權投資合夥企業 (有限合夥)), the funeral and cemetery buyout fund, made by the Group as a limited partner, which accounted for approximately 49.9% of the total proportion to the fund. The Group acquired the remaining 50% of ownership interest in Zhengzhou Anletang Funeral Service Co., Ltd.* (鄭州安樂堂禮儀服務有限公司) (“Zhengzhou Anletang”) (former name: Zhengzhou Baishan Fushou Life Cultural Service Co., Ltd) in November 2021.

11. CEMETERY ASSETS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Leasehold land	1,316,177	1,192,277
Landscape facilities	257,028	236,555
Development costs	364,457	369,227
	<u>1,937,662</u>	<u>1,798,059</u>

The leasehold land mainly represents leasehold land located in Mainland China having finite useful lives which are amortized on a straight-line basis over the lease terms. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Landscape facilities represent the construction cost of facilities such as arbors and bridges in the mausoleum. Amortisation for landscape facilities is provided on a straight-line basis over shorter of the remaining lease term of land or useful lives of 20 years.

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

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

12. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Burial plots	393,004	354,966
Tombstone	99,636	94,694
Others	51,847	52,603
	<u>544,487</u>	<u>502,263</u>

13. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables from contract with customers	112,165	63,265
Less: Allowance for credit losses	<u>(3,821)</u>	<u>—</u>
	108,344	63,265
Other receivables comprised:		
Prepayments and rental deposits on properties	2,564	2,369
Staff advances	2,962	3,492
Other service receivables	14,000	—
Entrusted loans (<i>note</i>)	—	6,950
Deposits for new projects	7,658	4,502
Prepayments to suppliers	11,373	19,602
Interest receivables	413	1,772
Others	<u>12,310</u>	<u>11,551</u>
	<u>159,624</u>	<u>113,503</u>

Note: The Group had advanced a loan to a cemetery to which the Group provided management services, and the loan has been paid off.

The aging analysis of trade receivables net of allowance for credit losses, presented based on the invoice date at the year end is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within one year	90,399	54,969
Over one year but less than two years	15,571	7,270
Over two years but less than three years	1,805	660
Over three years but less than four years	<u>569</u>	<u>366</u>
	<u>108,344</u>	<u>63,265</u>

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.

14. BANK BALANCES AND CASH

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest rate per annum		
— RMB	0.30%–2.03%	0.30%–3.70%
— HK\$	0.01%	0.01%
— US\$	0.05%	0.05%–1.20%

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
HK\$	15,093	113,936
US\$	797	8,572
	<u>15,890</u>	<u>122,508</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Unlisted cash management products	665,973	982,927
Equity investment	338,110	38,110
	<u>1,004,083</u>	<u>1,021,037</u>

During the Year, the Group entered into a number of contracts for cash management products as part of its cash management.

Details of the cash management products as at December 31, 2021 are as follows:

Bank	Name of products	Currency	Amount RMB'000	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Tian Tian Li Pu Tian Tong Ying (天添利浦天同盈1號) (note)	RMB	73,120	Redeemable on call after 1 work day on work day	2.67%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan ("天添利普惠計劃") (note)	RMB	17,118	Redeemable on call after 1 work day on work day	2.62%	N
Shanghai Pudong Development Bank	Zhou Zhou Xiang Ying Zeng Li (周周享盈增利1號) (note)	RMB	153,000	7 days cycle	3.06%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利12個月定開D款) (note)	RMB	3,055	27/07/2022	3.85%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利6個月定開Q款) (note)	RMB	8,444	Redeemable on call after 180 days on work day	3.70%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利6個月定開T型) (note)	RMB	5,823	Redeemable on call after 180 days on work day	3.65%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利6個月定開V型) (note)	RMB	1,351	Redeemable on call after 180 days on work day	3.50%	N
Shanghai Pudong Development Bank	Xin Xiang Li (鑫享利系列) (note)	RMB	1,353	Redeemable on call after 180 days on work day	3.60%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利12個月定開T款) (note)	RMB	1,546	06/05/2022	3.90%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利12個月定開N款) (note)	RMB	2,002	28/12/2022	3.70%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利6個月定開L款) (note)	RMB	1,606	Redeemable on call after 180 days on work day	3.40%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利12個月定開N款) (note)	RMB	2,555	19/08/2022	3.75%	N
Subtotal		RMB	<u>270,973</u>			
China Construction Bank	Qian Yuan — Heng Ying (乾元-恒贏 (法人版)) (note)	RMB	100,000	Redeemable on call after 1 work day on work day	2.63%	N
China Construction Bank	Jia Xin Gu Shou (嘉鑫固收2021-205) (note)	RMB	200,000	29/06/2022	3.65%	N
Subtotal		RMB	<u>300,000</u>			
Bank of Shanghai	Yi Jing Ling (易精靈) (note)	RMB	50,000	Redeemable on call after 1 work day on work day	3.20%	N
Subtotal		RMB	<u>50,000</u>			

Bank	Name of products	Currency	Amount RMB'000	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Rural Commercial Bank	Xin Zeng Li (鑫增利19050期) (note)	RMB	30,000	04/01/2022	3.80%	N
Shanghai Rural Commercial Bank	Ri Xin Tian Tian Ying (日鑫天天盈C款) (note)	RMB	15,000	Redeemable on call after 1 work day on work day	2.35%	N
Subtotal		RMB	<u>45,000</u>			
Total		RMB	<u><u>665,973</u></u>			

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

In July 2018, the Group 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.

During the Year, the Group entered into a limited partnership agreement with other partners in respect of the establishment of Hainan Tongyuan Equity Investment Partners Corporation (Limited Partnership) (“**Hainan Tongyuan**”). Pursuant to the limited partnership agreement, the Group is committed to contributing RMB300,000,000, accounting for approximately 13.04% of the total capital commitment to Hainan Tongyuan and this investment is measured at FVTPL. Hainan Tongyuan is primarily engaged in equity investment, investment management and asset management in the fields of technology, wellness of human being, food, cemetery and funeral services and etc. In the opinion of the Directors, the fair value and recoverable amount of the investment was RMB300,000,000 as at December 31, 2021.

16. TIME DEPOSITS

	2021 RMB'000	2020 RMB'000
RMB-denominated	<u><u>285,677</u></u>	<u><u>—</u></u>

As at December 31, 2021, the Group had fixed-term deposits of RMB285,677,000 in banks with maturity of six months to one year and fixed interest rate ranging from 0.01% to 2.30% per annum (December 31, 2020: nil).

17. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	281,752	245,326
Other payables comprise:		
Advances and deposits from customers	32,054	26,958
Payables for acquisition of property and equipment	888	742
Salary, welfare and bonus payables	158,442	139,546
Other accrued expenses	52,575	71,516
Consideration payables for acquisition of subsidiaries	168,277	102,188
Consideration payables for acquisition of non-controlling interests	6,070	7,170
Others	61,281	55,314
	<u>761,339</u>	<u>648,760</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0–90 days	101,794	112,627
91–180 days	29,159	14,070
181–365 days	32,079	35,633
Over 365 days	118,720	82,996
	<u>281,752</u>	<u>245,326</u>

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

18. BORROWINGS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Borrowings carry at variable interest rate		
— Secured by the Group's equity interest in a subsidiary	<u>—</u>	<u>13,860</u>
The carrying amounts of the above borrowings are repayable:		
Within one year	<u>—</u>	<u>13,860</u>

19. CONTRACT LIABILITIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cemetery maintenance services	467,804	404,595
Sales of pre-need contracts	<u>38,726</u>	<u>28,316</u>
	<u><u>506,530</u></u>	<u><u>432,911</u></u>

Cemetery maintenance services

The contract liabilities relate to cemetery maintenance services and represent 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 estimates 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, represents the deferred income, which is recorded as the contract liabilities relating to cemetery maintenance services.

Sales of pre-need contracts

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

20. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised by the Group:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contract liabilities and loss allowance	54,670	40,355
Tax losses	19,939	15,465
Fair value adjustments	<u>(135,047)</u>	<u>(136,354)</u>
	<u><u>(60,438)</u></u>	<u><u>(80,534)</u></u>

21. DIVIDENDS

During the Year, the Company has declared and paid the final dividend of HK5.53 cents per Share for 2020 and the interim dividend of HK5.64 cents per Share for 2021, amounting to approximately RMB214.3 million in total.

On March 18, 2022, a final dividend for 2021 of HK5.64 cents per Share was recommended by the Board, which is subject to the approval of shareholders at the forthcoming AGM.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2021 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement. The Company's auditor has reported on the consolidated financial statements of the Group for the year ended December 31, 2021. The auditor's report is unqualified and does not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the Group's results of 2021 to all shareholders for review.

With the progress of vaccination and resumption of work and production, the COVID-19 pandemic eased up in 2021, and the global economy recovered under the stimulation of consumption and investment. Many countries reopened; the consumption market gradually regained vitality; an increasing number of enterprises tried to explore opportunities for broader development space and greater benefits. However, countries witnessed differentiated economic developments and unbalanced economic recoveries in the post-pandemic era as they had different epidemic control measures, economic structures and development paths. Industries greatly affected by the pandemic were still in a difficult situation.

By further developing the comprehensive advantage and actively seizing the opportunities, the Group stayed at the forefront of the death care service industry and achieved a healthy revenue growth as compared with the prior year, rounding off the year 2021 with a satisfactory performance. During the Year, the Group recorded revenue of RMB2,325.8 million, representing an increase of 22.9% compared with 2020. Net profit was RMB889.6 million, representing an increase of 17.5% compared with 2020, of which profit and total comprehensive income attributable to owners was RMB720.0 million, representing an increase of 16.1% compared with 2020. The Board proposes a final dividend of HK5.64 cents per Share for 2021 to the Shareholders. Together with the interim dividend of HK5.64 cents per Share distributed during the Year, the total dividend for the full year of 2021 is HK11.28 cents per Share, which is in line with the Group's committed dividend policy to reward shareholders for the long-term trust and support.

Filial piety, a traditional virtue of the Chinese nation, is the most important moral norm and the key factor of promoting the long-term development of China's death care service industry. As a country with the largest population in the world, China now is a pretty vigorous market. The rapid economic and social development, the increasing life standards of people and the fast-growing aging population drive the death care service industry to grow and continuously boost the industry to develop sustainably, based on which, I believe that China's death care service market the Group focuses on currently will become one of the leading death care service markets in the world.

The Group has long been committed to the core values of "innovation, truth-seeking, peace of mind and sincerity", developing business advantages, focusing on cultivating talents and exploring new operation and management patterns. At the same time, the Group upholds the mission of "running a good enterprise and changing the entire industry", continuously promotes consolidation and improvement, strives for high-quality development, achieves new breakthroughs and makes efforts to advance the development of China's modern death care service industry. At present, the Group has established its presence across burial services, funeral services, equipment and supplies, landscape design, pre-need services, "Death Care + Internet" and life education. The Group's business has been expanded to more than 40 cities in 19 provinces, autonomous regions and municipalities in China.

As we enter the 5G era, every industry will be supported by big data in the future. As early as last year, the Group started from the idea of "expressing feelings to loved ones from home" and launched the cloud memorial platform "Fu Shou Cloud" and online services including "Online Tomb-sweeping" and "Online Blessing", being the pioneer to support the death care service industry with information technologies, promote the digitalization of the industry and achieve online memorial services and civilized technology-backed tomb-sweeping. On the Winter Solstice of last year, the Group further developed the internet-based business and launched the communal memorial ceremony of "sending feelings and praying for happiness, longevity and health during the Winter Solstice Festival". With the help of Internet technology, the online communal memorial service has broadcast the whole process of "nine rituals of praying for happiness and longevity" to the public according to the traditional worship process in the Book of Rites. The whole service package helped citizens to solve the problem of inability to attend funerals on site and the cumbersome process of arranging funerals, enabled them to interact with the cemetery seamlessly and "share their feelings in a virtual space" without being separated by physical distance.

During the Year, Fu Shou Yuan responded to the country's policy, followed the trend of green and low-carbon development and launched carbon neutrality projects, becoming the "carbon neutrality pathfinder" of the industry. Carbon neutrality is not only an environmental issue, but also a political and economic issue that focuses on the energy revolution and relies on technological breakthroughs. In the context of carbon neutrality, low-carbon emissions in all industries are becoming an increasingly important development factor, and there will be higher expectations for companies to disclose data on their carbon emissions. In December 2021, Fu Shou Yuan International Group officially received the certificate for the voluntary carbon neutrality projects and achieved the nominal "carbon neutrality", thus becoming the first group enterprise in China's death care service industry to advocate and practice carbon neutrality. Going forward, Fu Shou Yuan will continue to undertake social responsibilities, make real efforts in low-carbon emissions and emission reductions and help achieve the "carbon peaking and carbon neutrality" goals.

The Group strives to expand the business scope and develop new cooperation areas to facilitate high-quality development. In March 2021, Fu Shou Yuan concluded an investment agreement with Shandong Heze Fuluyuan for acquiring its 90% equity interest. The two parties will carry out further cooperation, commit to improving people's livelihood, inheriting urban context, promoting ecological civilization and leading industrial revolution, and work jointly to improve the funeral equipment construction and the overall death care service level of Heze City. In May 2021, the Group entered into an agreement to acquire the 100% equity interest of Anhui Longmen Cultural Cemetery Co., Ltd., through which the Group can expand the coverage of its businesses, further improve brand recognition, enhance the overall operation capacity and strengthen the core competitiveness in the national market.

To advance the strategic transformation and value shaping and improve the corporate image, the Group actively participates in the hospice care undertaking, making contributions to alleviating the burdens on the society and improving people's wellbeing. In July 2021, Fu Shou Yuan participated in the organization of the forum for "Combination of Hospice Care with Elderly Care Industry". Focusing on the in-depth integration of hospice care and elderly care industry and highlighting such core ideas as life education and humanistic care, the forum discussed the construction of health service and life service system for the elder in line with the requirements of the era. In September 2021, Fu Shou Yuan held the Hospice Care Skill Training Workshop (Session 1), aiming to impart basic knowledge of hospice care, teach basic skills of hospice care workers and share some practical experience and cases of hospice care. The training is expected to build and improve the service list, service standard and evaluation system of hospice care workers, train the practical skills of participants in hospice care service in organization and at home, improve the care quality and life quality of the elderly, contribute the strength of business circles to the development of the whole hospice care cause.

In addition, the Group enters universities to bring the death care service industry to a wider public, which promotes the in-depth industry-university-research cooperation of Life-Service Academy of Fu Shou Yuan and makes a solid progress in the construction of professional education system. At the invitation of HKU SPACE, Fu Shou Yuan shared a particular program titled “Introduction to Modern Death Care” to trainees of HKU SPACE in November 2021. The life education team of Fu Shou Yuan also entered Peking University to launch special life education experience activities to deepen students’ understanding about the industry. In the same month, “I can’t stop missing, see you on the cloud — Fu Shou Yuan Innovative Memorial Service on the Cloud” applied by Fu Shou Yuan was selected as an outstanding case and honored of China Funeral Vocational Education Group. In the future, the Group will further cooperate with China Funeral Vocational Education Group, deepen cooperation between school and enterprise, actively make concerted efforts in the construction of life culture education system, share industrial vocational information resources, enrich the exchange platform of production, education and research, and jointly promote funeral vocational education.

The Group has been prioritizing eco-environmental progress, pursuing green development, strengthening the sustainable development capacity and promoting the environmental upgrading of traditional industries. In April 2021, the inauguration ceremony of the “Crystal Garden”, the supermicro land occupation park completed by Fu Shou Yuan during the Qingming Festival, was held in Shanghai Fu Shou Yuan Humanism Memorial Park. The “Crystal Garden” abandons the pattern of traditional land-saving burial and adopts the style and design that incorporates both land-saving effect and aesthetics, which fully manifests the humanistic care of Fu Shou Yuan. In July 2021, Fu Shou Yuan’s eco-friendly cremator passed the quality review of cremator technical test project of Shanghai Yi Shan Funeral Parlor. Experts believed that the overall operation of Fu Shou Yuan JS-3 cremator is stable and reliable, meeting the leading standard in China, and certain technologies of the cremator are the first of its kind in China, which meet the requirements of green development and play as an important role in demonstrating and guiding the upgrade and transformation of high-quality cremators across China. On top of that, Fu Shou Yuan will advance the development and manufacturing of green equipment and promote the practices of high-quality death care service and environmental protection. In August 2021, Hang Seng Indexes Company Limited selected Fu Shou Yuan as a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index, which fully reflected that Fu Shou Yuan has been making unremitting efforts to achieve sustainable development in operation and growth, environment, safety and health and corporate governance. For its great contribution to environmental protection and sustainable development, Fu Shou Yuan won the “Award for Contributions to Sustainable Development 2021” in the 4th Social Responsibility Conference in November 2021 and the “Best Sustainability Award” at the Award Ceremony for Best Listed Companies in Greater China 2021.

While achieving growth and development, Fu Shou Yuan has been actively fulfilling the social responsibilities of delivering humanistic care and promoting charity, environmental protection and public welfare undertakings, and earns high recognition from the public for its commitment to public welfare and charity undertakings. During the pandemic, branches of Fu Shou Yuan not only cooperated with the government to implement epidemic control measures, but also worked with streets, communities and elderly caring service organizations to provide elders who lived by basic living allowances, were at advanced age or lived alone with voluntary services that met their needs. In August 2021, Shanghai Fu Shou Yuan Public Welfare Development Foundation (“Fu Shou Yuan Public Welfare Foundation”) officially settled in Shanghai Xintiandi of Charity and Voluntary Services, aiming to provide professional funding and standard training for community-based social organizations, to enhance their local service and volunteer operation capacity and to develop hospice care volunteer services and build life care communities through the strategy of promoting the standard “point-surface-net” project. In December 2021, Fu Shou Yuan Public Welfare Foundation launched a “program to support veterans of the Anti-Japanese War” and a “plan to subsidize heroes who fought against the United States and assisted Korea”, being committed to helping those who are unable to take care of themselves in their later years and paying tribute to their contributions to national independence and liberation.

As a leader in China’s death care service industry, Fu Shou Yuan has been committed to public welfare undertakings while continuously providing high-quality services to improve people’s livelihood, and it regards death care services as an important cornerstone of ensuring people’s wellbeing, building a harmonious society and promoting enhanced adjustment to bereavement and loss at the end-of-life. For its 27-year devotion to public welfare undertakings, Fu Shou Yuan is highly recognized in and outside the industry and has won numerous honors. In April 2021, Shanghai Fu Shou Yuan and Fu Shou Yuan Harbor Cemetery won the title of 20th “Civilized Units in Shanghai”. Shanghai Fu Shou Yuan has won this honor for 11 consecutive times and Fu Shou Yuan Harbor Cemetery has won this honor for 6 consecutive times, which marks that the construction of spiritual civilization has reached a new level. In the same month, the Group won the 4th Outstanding IR “Best ESG” Award, which fully demonstrated that the society highly recognized the Group’s contribution. In July 2021, the Group won the “2021 Outstanding Brand Image Award” at the 10th China Finance Summit (CFS) for its brand building and cultural innovation since its establishment 27 years ago. In September 2021, Fu Shou Yuan won unanimous praise of the judging panel by its enterprise culture concept “new culture, new service, new education, new ecology and new governance” and won the winning prize of Shanghai excellent enterprise culture achievements. In December 2021, Fu Shou Yuan won the “Most Socially Responsible Listed Company” Award at the Award Ceremony for Golden Kylin Best Companies Listed in Hong Kong and the US for its outstanding performance in promoting and advocating carbon neutrality projects, public welfare funds and charitable donations in the industry. In January 2022, Fu Shou Yuan was honored as “Most Socially Responsible Listed Company” at the 6th Golden Hong Kong Stock Awards Ceremony, which highlighted

the attention and recognition of the industry and investors and was a great encouragement and affirmation to Fu Shou Yuan. In the same month, the Group won the “Award of Socially Responsible Listed Company” at the 11th China Charity Festival for its outstanding performance in fulfilling corporate social responsibility.

Looking back, the Group has been adhering faithfully to the original aspiration of “running a good enterprise and changing the entire industry”, actively pursuing breakthroughs in developing products and services, continuously enriching the content, improving the plans and raising the standard. Going forward, Fu Shou Yuan will stick to the starting point of providing high-quality life services, make efforts to fulfill corporate, social, industry, historic and public responsibilities, build a caring and warm life service system and create new culture in the industry to promote the industry reform and the progress of social civilization, to create greater values for shareholders and to help people pursue a better life.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

China advances into a moderately prosperous society in all respects, reaching a new historical starting point. Promoting people's well-being to a new level and continuously enhancing people's sense of satisfaction, happiness and security will be the key goals of China's future development in people's livelihood.

The total population of China kept growing in 2021, while population aging further intensified and the level of urbanization advanced steadily. According to the documents published by the National Bureau of Statistics of China, the number of people aged 60 and above in Mainland China reached 267.36 million at the end of 2021, accounting for 18.9% of the total population. The number increased by 3.29 million compared to the end of 2020, representing a rise of 0.2 percentage point in its proportion to the overall population, suggesting a further intensified aging trend. As of the end of 2021, China's resident population in urban areas reached 914.25 million, representing an increase of 12.05 million compared to the end of 2020, while the urbanization rate of China's resident population in urban areas was 64.72%, representing an increase by 0.83 percentage point compared with the end of 2020. During the 14th Five-Year Plan period, the population born in the second birth peak in the 1960s will successively enter old age, resulting in a sharp increase in China's aging population. In terms of population distribution, the urbanization rate of China's resident population maintains a rapid growth trend, which may exceed 65% during the 14th Five-Year Plan period. The aging population trend and the acceleration of the new urbanization process will give rise to a massive demand for death care services in the market.

In June 2021, the Ministry of Civil Affairs issued the 14th Five-Year Plan on the Development of Civil Affairs(《「十四五」民政事業發展規劃》) (the “**Plan**”), which will further improve the public death care service system, fully establish a basic death care service protection system, properly fulfill the government's responsibility on providing basic death care services to the urban and rural residents in difficulties, and improve the government's ability to provide basic death care services. The Plan will further accelerate the reinforcement of weaknesses in the death care service facilities and practically improve the standard of governance in the death care service sector, while further standardizing and strengthening the management of death care services, strengthening the public welfare attributes of death care service providers, standardizing the business

conduct of death care intermediaries and service providers, and establishing a sound and comprehensive regulatory mechanism. Besides, the Regulations on Funeral and Interment Control (《殯葬管理條例》) has been included in the legislative work plan of the Ministry of Civil Affairs and its revision is being actively promoted. The revision of the Regulations on Funeral and Interment Control will deepen the death care reform, improve the death care service system, and help rectify the chaos in the industry. In order to address the hot and difficult issues of public and social concern, it further standardizes death care behaviors, strengthens death care management for legal protection, promotes the market-oriented and standardized development of the industry, and ultimately achieves the long-term healthy growth of the death care service industry in the PRC. 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, we have always been at the forefront of the industry in terms of compliance with the law, and we believe the 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 of their intellectual and cultural needs.

At the same time, the “Decentralization-Control-Service” reform is also being steadily implemented. In June 2021, the State Council issued the Notice Regarding Deepening the Reform of Separation of Permits and Business Licenses and Further Increasing the Development Vitality of Market Participants (《關於深化「證照分離」改革進一步激發市場主體發展活力的通知》), which coordinates the overall advancement of the administrative approval system reform and the commercial system reform, promotes post-business license reduction of permits and simplification of approval in a wider range and more industries, so as to further optimize the business environment and stimulate the development vitality of market participants. The approval authority of operating cemeteries will be delegated from the provincial civil affairs department to the municipal civil affairs department in the district, and the municipal civil affairs department in the district will report the results of the approval to the provincial civil affairs department for filing. In July, the General Office of the State Council issued the Plan for Division of Key Tasks of the Teleconference on Deepening the “Decentralization-Control-Service” Reform and Cultivating and Stimulating Vitality of Market Participants Nationwide (《全國深化「放管服」改革著力培育和激發市場主體活力電視電話會議重點任務分工方案》), which responds to the needs of the market participants by innovating and implementing macro policies and deepening the “Decentralization-Control-Service” reform in an effort to create a market-oriented and legalized business environment. The content and specific measures of the “Decentralization- Control-Service” reform will be beneficial for the Group to make more positive contributions to the death care service business.

With regards to scientific funeral and burial, In December 2021, the Ministry of Civil Affairs issued The 14th Five-Year Plan on the Development of the Digitalization of Civil Affairs (《「十四五」民政資訊化發展規劃》), which serves as a proactive effort to establish a nationwide digitalized platform for death care management services, to build a fundamental national database for digitalized death care information, and to improve the digitalized standards of death care management services. Promoting the integration of the internet and death care services and developing new service modes of such as remote funerals and online worshipping, it aims to provide more convenient death care services for the public. In the same month, the Ministry of Civil Affairs issued Specifications for Online Worshipping Services (《網路祭祀服務規範》), which sets out the basic requirements for providing online worshipping services, service procedure, and standards for online memorial halls and its evaluation and improvement.

As the economic development of the PRC enters a new era, people's demands are gradually moving from "availability" to "quality". In the death care service sector, given the increasing disposable income per capita, government's vigorous promotion of traditional Chinese culture and virtues, accelerating urbanization progress and an aging population in the PRC in recent years, these trends not only underlie the increase in overall demand for death care services, but also demonstrate the requirements for better death service quality and the diversification and differentiation of the substance of death care services. With the publication of demographic statistics from the 7th population census, the death care industry is gradually incorporated into the coordination, development, and planning of the entire elderly service industry to facilitate the development of each "elderly" service industry in a coordinated manner. In addition, a multilayered social service security system, led by the government with contribution from the society, has been established to stimulate market entities to direct social energy towards livelihood service security in an orderly manner, thereby proactively advancing the structural reform of the supply side of death care services. It secures the basic livelihood requirements and satisfies the demand for multilayered and diversified death care services at the same time. These driving factors are set to boost the in-depth and stable development of the death care industry in the PRC.

BUSINESS COMMENTARY

During the Year, the PRC witnessed a sustained and steady economic recovery and a further improvement in operation quality thanks to its effective anti-epidemic efforts. Based on the stable external economic environment, the Group, as always, also continued to consolidate and explore our brand value, devote sustained efforts in the landscaping, funeral facilities and cultural setting of existing cemeteries, improve service quality, and offer innovative, diversified and differentiated services and products, continuously optimizing the allocation of resources in respect of our business structure, products and services, and sales channels, among others.

In relation to cemeteries and funeral facilities, we adhere to the concept of transforming cemeteries into humanity parks and life parks. On one hand, we continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while lowering that of traditional cemeteries, and explored innovative burial rites actively such as gemstone burial, dimensional space burial and different types of ecological burial, so as to keep promoting the effectiveness of land utilization. On the other hand, we made constant renovations, enhancing the application of new materials, new technologies and new techniques in the construction of cemetery environment and product layout. At the same time, we continued to improve and enrich the contents and functions of cloud memorial products, and launched digitalized funeral and other digitalized services, further promoting the transformation of physical cemeteries into digitalized cemeteries, bringing greater vitality and inspiration to traditional cemetery products and services. While improving the cemetery environment, we continued to seamlessly implant ecological awareness, embed humanity elements, produce a historic atmosphere, and utilize technology for empowering, bringing greater vitality and inspiration to traditional cemeteries and creating an atmosphere of beautiful environment, glorifying culture and harmonious ecosystem. In addition, we actively implemented various public welfare activities represented by the “cloud public memorial service”, further assuming its social responsibilities.

In relation to the funeral services business, we have enhanced the promotion of services regarding the remains, further promoted cosmetic services, body SPA services, explored the market of door-to-door services in rural areas, and facilitated the business of door-to-door service, so as to meet the differentiated and diversified needs of different customer groups. At the same time, we achieved full coverage of centralized procurement of supplies and actively implemented a cultural and creative product strategy. Through cultural and brand empowering of traditional funeral equipment, we successfully pushed forward the transformation from “practical products” to “cultural and creative products”. Our innovative return gift set and “Fu Shou Language of Flowers”, a cultural and creative flower project, instilled civilized tomb-sweeping with additional cultural elements and improved customers’ consumption experience and satisfaction.

During the Year, against the backdrop of regular epidemic prevention and control, we continued to establish and complete the series of online products. Firstly, we optimized and enhanced cloud memorial services, adding functions with more interactivities such as life story, life microfilms, ritual live, etc. on the foundation of existing online obituary and online album services, while implementing online services for the park by connecting the business system. Secondly, during the Qingming holiday, we launched immersive digitalized funereal services for the first time with the aid of audio-visual equipment, technologies of the internet and the internet of things, conducted the first immersive funereal in China, and continued to complete and optimize services, adding Scenario-based management, multi-device linkage and holographic projection equipment on the base of achieving online-offline connection and human-computer interaction, to restoring a holographic image through “Virtualized human technology”, replicating voices of the

deceased through technical means, and communicating with family and friends on the scene across time and space, thus presenting the first funereal crossing time and space in the digitalized universe in China. Thirdly, innovating products and empowering with technology, we launched online 3D virtual memorial hall product, digitalized the possessions of the deceased and conducted a limited premiere online through NFT. By combining traditional culture and modern ceremony and empowering with technology, we effectively pushed forward the transition of funereal and mourning ritual from traditional material level to a deeper spiritual level. In December 2021, on the STIF International Sci-tech innovation festival and Global Digital Conference in Tianjin, Shanghai Fu Shou Yun Life Information Technology Co. Ltd., a subsidiary of the Group, was awarded the “Exemplary Digitalized Innovation Award 2021” for its innovative “Fu Shou Cloud” online tomb sweeping service launched during the epidemic and its exploration and innovation in the field of “Death Care plus Internet “.

As an important strategic pivot of the Group, the pre-need contract service helps the Group to lock in customers earlier and brings a stable customer base to the funeral and cemetery segments. In the context of an aging society, pre-life contract services attract more customers wishing to make or already made their afterlife plans, as well as gaining conformation, support and service order from Government at all levels and elderly service Institutions. During the Year, the pre-need contract business has kept growing rapidly with a total of 13,764 signed contracts, representing an increase of 133.1% over last year. As of the end of 2021, the service scope of pre-need contract had covered 35 cities in 17 provincial regions. In the present, pre-need contract products have been introduced into the product service catalogues of multiple elderly care institutions. At the same time, we continued to communicate with insurance, trust and other business institutions, in hopes of expanding diversified sales channels, designing and constructing a dialogue context and promotion method for communicating with customers about pre-need contracts on non-funereal scenarios. In addition, pre-need contract began an attempt to expand horizontally during the Year. Through the export of our business model, we will integrate more funeral service providers to create a larger and denser network of services to serve the public more quickly and extensively.

The Group’s eco-friendly cremation machine business integrates R&D, design, in-house production, comprehensive support and after-sales service to produce smart and eco-friendly cremation equipment and exhaust gas purification treatment systems. In July 2021, the Shanghai Funeral and Interment Service Center organized the Kick-off Meeting for Shanghai Green Cremator Version 1.0 Upgrade and Renovation and Promotion Meeting for Shanghai Green Burial Work (上海綠色環保型火化機1.0版升級改造工作啟動會暨上海綠色殯葬工作推進會). The meeting issued the corporate standard of Technical Quality and Operation and Maintenance Service Specifications for Green Cremation Machine (《綠色環保型火化機技術品質和運行維護服務規範》). The Group’s JS-3 green cremator passed the project quality assessment with technical standards such as efficient operation, emission compliance and stable performance. The expert task force gave full recognition to the cremator innovation work carried out by Fu Shou Yuan in terms of a

stable corpse feeding system, innovative furnace chamber structure, high temperature combustion system, super clean exhaust gas system and intelligent control system. It believes that the overall operation of Fu Shou Yuan JS-3 cremator is stable and reliable, meeting the leading standard in the PRC, and certain technologies of which are the first of its kind in the PRC, which meet the requirements of green development and play as an important role in demonstrating and guiding the upgrade and transformation of high-quality cremators in Shanghai and even across China. At the same time, to continue improving performances of the “Jiesheng” cremator series, we have initiated collaborated research with Shanghai Jiao Tong University and Tongji University respectively, introducing big data artificial intelligence and fuzzy control technology, gradually achieving automation of the entire cremating process in the unmanned Crematorium. This is expected to decrease average energy consumption by 50% compared with the last generation of product, reduce 30% of average time used cremating 500 remains, and multiply the trouble-free execution time of the automatic pre-furnace carcass feed system by 5 times. On the other hand, as a part of our effort to expand the market, we entered into a sales cooperation agreement with a local partner in Russia for several cremators, exhaust system and ancillary equipment, which made “Jiesheng” products rush out of China and go global. In the future, the development of the Group will focus on its target markets. The Group will further invest in R&D through establishing a long-time stable collaborative relationship with universities and research institutions, increase promotion investments in the eco-friendly cremator market, continue refining production quality and service system construction and optimizing product costs, adhere to eco-friendly concepts, and maintain a leading position in technology in the market.

In relation to the expansion of our cemetery and funeral business, the Group continued to seek replicable models by adopting the principle of resource integration and pursuit of high-quality development as well as innovative drivers of mixed reform projects and cooperative projects. In June 2021, the Group completed the signing of the project of the humanities memorial park in Dalian Bay, Dalian City, which is another strategic location in the northeastern region with great geographical advantage for the Group. In August 2021, we completed the acquisition of 100% of the equity interest in Anhui Longmen Cultural Cemetery Co., Ltd., thus establishing a distribution network in Hefei, Xuancheng, Huabei, Chaohu, Fuyang, Lu’an and Suzhou in the Anhui region. In October 2021, we signed a contract to acquire 30% of the equity interest in Zhuolu Longhui Tianfu Yuanbaoshan Development Management Company Ltd.* (涿鹿隆暉天富元寶山開發管理有限公司) (“**Zhuolu Company**”) in Hebei Province. Zhuolu Company is located at the border of Beijing and Zhangjiakou in Hebei, which makes this acquisition a substantial step forward for the Group to enter further into the Beijing-Tianjin-Hebei region. The transaction will further expand the service space for this region and gradually build the brand of Fu Shou Yuan in the Hebei and Beijing region. In December 2021, we completed the acquisition of 90% of the equity interest in Heze Fuluyuan Cemetery Management Co.,Ltd.* (荷澤福祿源公墓管理有限公司) (“**Heze Fuluyuan**”) in Shandong. Meanwhile, the Group’s expansion plans into major provinces and provincial capitals across China and the acquisition or partnership of various target

companies and projects in other regions are also being actively pursued. With regards to some regional key projects, the Group will strengthen its cooperation with government platform companies and continue to try out a strategic investment pattern of diversified participation and collaborative development, so as to strike a balance between intrinsic value and market value and steadily realize the Group's strategic vision. As at the date of this announcement, our footprint covers over 40 cities in 19 provinces, autonomous regions, and municipalities in the PRC, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Jilin, Heilongjiang, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia, Gansu, Hubei and Hebei. We have enhanced the post-investment management of our projects and set up a special team to strengthen the systematic management and control on post-investment projects, based on the criteria of "idea oriented", "standards oriented" and "management oriented" as well as the expected outcome of the projects, allowing the new investment projects to achieve the investment plan, cultural implantation and control expectations promptly, thus contributing to its steady and high-quality development.

During the Year, we continued to strengthen team building, improve operational structure, advance the standardization of business processes and enhance systematic construction. We will continue to enhance our comprehensive budget management and internal control and promote the optimization of financial structure.

Employees are our most valuable resource. Adhering to Fu Shou Yuan's business philosophy, our employees endeavor to cultivate their personal abilities and expand their international visions, striving to provide the best quality products and services to our customers. The Group consistently attaches great importance to the development of our talents and team building, endeavors to instill a spirit that values hard workers and entrepreneurs, continuously sparks employees' initiative, eagerness and creativity, encourage employees to engage in regular education and promote the "craftsmanship's spirit" to pursue excellence. During the Year, the Group introduced in external professional consultancy forces to conduct strategy and management reform, optimized the two-wheel drive organization construction with a customer and product orientation, and established a management and professional dual-channel ranking system, implemented a performance appraisal system led by value targets, customer targets, management targets, social targets and staff targets. We conducted a job matching survey for the entire Group's directly managed cadres, posted temporary cadres and reserve cadres, carried out a systematic career life design, established the "top-class employee system", and enriched the award and incentive systems for employees. At the same time, the Group's Life Service Academy furthered the positive advancements in policy research, education training, domestic and international industry exchanges, etc. During the Year, Life Service Academy strengthened theoretical research on industry development policies, explored and collaborated with the School of Social Sciences of Shanghai University to co-organize the Hospice Social Worker Skills Pre-Service Training, and hosted a funeral themed online networking session with Worsham College in the USA. We also organized and participated in various skills competitions in the industry, conducted middle and

senior management personnel training, professional skills training for talents and other various training courses and seminars. We promoted the overall education and training work, providing human resources and intellectual support for the Group's development and offering solutions and support in decision making for new situations and new issues that arise during the Group's development.

The Group continued to uphold our “people-oriented and culture-rooted” philosophy, providing livelihood services, leading life education, promoting ecological culture, and keeping the memory of cities. There were around 61,000 relevant media reports during the Year, an increase of 157% than those of last year. The Group's WeChat official account “Fu Shou Yuan Humanities” posted 212 pieces, reaching a total of 1.17 million viewers, which is a 220% increase compared with last year, realizing the export of Fu Shou Yuan 's corporate culture and philosophical values in a media branding approach. The public recognized the industry-leading position of Fu Shou Yuan, thumbing up the brand “Public Welfare Contract” (公益契約), organ donation charity wedding, Ching Ming Memorial Ceremony, Cloud Memorial, 3rd Peking University Ching Ming Forum, the Series Reports of the “top-class employee”, the first ‘carbon neutral’ project promotion in the industry, etc. In terms of red culture dissemination, in June 2021, the Humanities Memorial Park of Fu Shou Yuan was included in the list of 100 immovable revolutionary cultural relics in Shanghai. In July, Fu Shou Yuan's grass-roots party building was selected as an example in The Story of Grass-roots Party Building Published by the PRC Central Party School Press, dedicating to the 100th anniversary of the founding of the Communist Party. At the same time, the Humanities Memorial Museum of Shanghai Fu Shou Yuan co-organized the 2021 “Sages and Shanghai's Urban Memory” (先賢與上海城市記憶) forum, creating an in-depth, quality and storytelling public lecture on the party's history. In terms of the communication of public spirit, when a historic flood wreaked havoc on Zhengzhou City of Henan Province in July, Fu Shou Yuan Public Welfare Foundation immediately deployed human resources, supplies and financial resources and worked with the local companies under the Group to send condolences, donate supplies and provide support to the units critically affected by the disaster. In August 2021, Fu Shou Yuan Public Welfare Foundation passed the evaluation and was reviewed and approved by Shanghai Administration of Civil Affairs and settled in the landmark of Shanghai Public Affairs — Xintiandi Charity Park. On the day of winter garments in November 2021, Fu Shou Yuan Public Welfare Foundation donated epidemic prevention supplies and elderly assistance equipment to Xiamen Social Welfare Center, the city's aid stations and 24 non-profit elderly care institutions, passing on the filial piety of the Chinese nation through practical actions and sending warmth and care to the elderly in autumn. In the same month, Fu Shou Yuan Public Welfare Foundation collaborated with Tencent Charitable Foundation and Shenzhen Long Yue Charity Foundation and made matching donations for the first round of funding of “Retirement Project for the veterans in the resistance wars” and “Tribute monetary gift plan to the heroes of the War to Resist U.S. Aggression and Aid Korea”. Throughout the Year, Fu Shou Yuan Public Welfare Foundation launched a number of widely regarded themed public welfare projects in the areas of poverty alleviation, hospice care,

and praise and commendations, further strengthening the Foundation’s social functions. In terms of the innovative culture communication, the memorial ceremony event for the famous director Pang Xiaolian, planned and promoted by Fu Shou Yuan, was the first digitalized ritual burial and memorial service in the industry, which gained 110 million views on relevant Weibo topics. The digitalized funeral later planned and arranged for Wu Mengchao Academician gained broader attention, which represented Fu Shou Yuan’s strategic direction of digitalized development and fulfilling a broader extent of spiritual and cultural requirements.

In addition, Shanghai Fu Shou Yuan and Xuancheng Mashan Funeral Parlour Co., Ltd. (宣城市馬山殯儀館有限公司) have commenced a carbon neutrality project on a voluntary basis, achieving “carbon neutrality” in nominal terms and receiving the official certificates for the carbon neutrality project during the Year. The Group has become the first business conglomerate in China’s death care industry to promote the carbon neutral business and put it into practice.

In view of the above, we registered a considerable growth during the Year. The Group’s total revenue reached RMB2,325.8 million, representing an increase of 22.9% as compared to that of last year. Profit and comprehensive income attributable to the owners of the Company amounted to RMB720.0 million, representing an increase of approximately 16.1% as compared to that of last year.

REVENUE

During the Year, our revenue increased by approximately RMB433.3 million or 22.9% to RMB2,325.8 million from RMB1,892.5 million 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 Year:

	2021		2020	
	Revenue (RMB’000)	% of Total Revenue	Revenue (RMB’000)	% of Total Revenue
Burial services	1,907,676	82.0%	1,579,143	83.4%
Funeral services	331,970	14.3%	252,938	13.4%
Other services	104,669	4.5%	84,072	4.4%
Inter-segment elimination	(18,467)	(0.8%)	(23,616)	(1.2%)
Total	<u>2,325,848</u>	<u>100.0%</u>	<u>1,892,537</u>	<u>100.0%</u>

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:

	2021		2020	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	15,129	1,676,145	13,083	1,408,456
Public welfare plots and tomb relocation	<u>9,547</u>	<u>50,279</u>	<u>1,310</u>	<u>23,281</u>
	<u>24,676</u>	<u>1,726,424</u>	<u>14,393</u>	<u>1,431,737</u>
Other burial services		<u>181,252</u>		<u>147,406</u>
Total revenue from burial services	<u>24,676</u>	<u>1,907,676</u>	<u>14,393</u>	<u>1,579,143</u>

During the Year, revenue from sale of burial plots services for ordinary business purpose increased by approximately RMB267.7 million or 19.0% as compared to Last Year. Sales volume recovered and increased by 2,046 or approximately 15.6%, while ASP increased by 2.9%. The following table sets forth the breakdown of revenue from sale of burial plots services for ordinary business purpose from our new (i.e. those related to acquisitions/new construction) and comparable cemeteries during the Year:

	2021		2020	
	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*	12,746	1,548,525	12,185	1,363,429
Cemeteries related to acquisitions/ new construction	<u>2,383</u>	<u>127,620</u>	<u>898</u>	<u>45,027</u>
Total revenue from sale of burial plots services for ordinary business purpose	<u>15,129</u>	<u>1,676,145</u>	<u>13,083</u>	<u>1,408,456</u>

* Comparable cemeteries refer to those cemeteries which were in operation for the entire period from January 1, 2020 to December 31, 2021.

During the Year, revenue from sale of burial plots services for ordinary business purpose in comparable cemeteries increased by RMB185.1 million or 13.6% as compared to Last Year. Its sales volume recovered from COVID-19 outbreak impact and increased by 561 or 4.6% and the ASP increased by 8.6% due to the combined effect of products mix, contributions from various cemeteries and the increased market recognition, etc.

Revenue from sale of burial plots services for ordinary business purpose in newly acquired or newly developed cemeteries increased by RMB82.6 million, mainly due to the contribution from Harbin Mingxiyuan Cemetery acquired in August 2020. The ASP of burial plots sold for ordinary business purpose in the new cemeteries was lower than that of comparable cemeteries, as the cemeteries are located at different regions and these new cemeteries need time to improve their landscape, enhance the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers and to increase the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals. Leveraging on our advanced philosophy, extensive management experience in death care business and a strong team of professionals, those new cemeteries are expected to achieve profitable growth in the future.

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:

	2021		2020	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	54,468	298,476	43,782	240,652
Facilities related to new acquisitions or new construction	9,814	33,494	3,609	12,286
Total revenue from funeral services	64,282	331,970	47,391	252,938

* Comparable facilities refer to those funeral facilities which were in operation for the entire period from January 1, 2020 to December 31, 2021.

During the Year, revenue from funeral services increased by RMB79.0 million or 31.2%. In particular, the volume of funeral services increased by 16,891 households or 35.6%, while ASP reduced by RMB170 or 3.2%, mainly due to combined effects of services mix, location mix and etc.

Revenue from comparable funeral facilities and services increased by RMB57.8 million or 24.0%. Its volume of services bounced back from COVID-19 outbreak impact and increased by 10,686 households or 24.4%, while ASP decreased slightly by approximately 0.3% or RMB17 as compared to Last Year. Revenue from new funeral facilities was mainly contributed by Jinsha Fuze Cemetery acquired by the Group in June 2020. ASP of new funeral facilities was lower than that of the comparable funeral facilities, mainly due to different funeral services mix i.e. Jinsha Fuze Cemetery was primarily engaged in the provision of funeral catering services which recorded a slightly lower ASP compared to other value-added services.

Geographic Information

Our cemeteries and funeral facilities under operation are strategically located in major cities across 16 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 Year:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
	(RMB'000)	Revenue	(RMB'000)	Revenue
Shanghai	997,379	44.5%	860,062	46.9%
Henan	124,785	5.6%	122,959	6.7%
Chongqing	91,423	4.1%	76,967	4.2%
Anhui	213,450	9.5%	177,233	9.7%
Shandong	98,855	4.4%	94,232	5.1%
Liaoning	191,793	8.5%	153,949	8.4%
Jiangxi	122,731	5.5%	93,764	5.1%
Fujian	48,821	2.2%	37,983	2.1%
Zhejiang	43,793	2.0%	36,117	2.0%
Jiangsu	111,443	5.0%	81,212	4.4%
Guangxi	19,210	0.9%	17,975	1.0%
Inner Mongolia	17,600	0.8%	15,569	0.9%
Guizhou	52,387	2.3%	32,234	1.8%
Hubei	801	0.0%	719	0.0%
Heilongjiang	88,951	4.0%	30,498	1.7%
Gansu	16,224	0.7%	608	0.0%
Total	<u>2,239,646</u>	<u>100.0%</u>	<u>1,832,081</u>	<u>100.0%</u>

During the Year, revenue in all regions increased due to the recovery from the impact of COVID-19 outbreak and the newly acquired cemeteries and funeral facilities.

Other Services

Revenue from other services for the Year mainly represented the revenue of approximately RMB 40.1 million generated from construction service of funeral parlours under the franchise agreements, the revenue of approximately RMB36.3 million generated from our professional design services offered to cemeteries and funeral parlours throughout the nation, and revenue from the sale of cremation machines and other related services of approximately RMB28.3 million.

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for approximately 52.9% of our total revenue for the Year (Last Year: 51.0%), increased by approximately RMB266.7 million or 27.7%. The increase in operating expenditure was in line with the revenue growth and the development of the business. Meanwhile, the Group continued to optimize the resource allocation in order to best meet the development needs and achieve a cost-effective operation.

The staff costs include staff salaries, bonuses, benefits and amortization of share option costs. During the Year, the staff costs increased by approximately RMB83.8 million or 21.7%. Such increase was mainly attributable to the combined effects of the return of staff salaries to normal level in the post-pandemic era, the discontinuation of various social security concessions in the Year and newly acquired entities, such as Jinsha Fuze Cemetery, Harbin Mingxiyuan Cemetery and Anhui Longmen Cemetery, etc.

The construction costs relate mainly to the expenditures in building burial plot products (excluding stone materials) and constructing facilities under the franchise agreements. During the Year, the product construction costs increased by approximately RMB90.9 million or 118.8%, mainly because construction of burial plot products in many locations resumed in the post-pandemic era in order to replenish the inventories to meet the market demands, and the construction cost of funeral parlours under the franchise agreements amounted to RMB40.1 million.

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 by approximately RMB28.4 million or 19.1%, mainly due to the related business growth and newly acquired entities.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Year, the marketing and sales channel costs increased by approximately RMB7.9 million or 21.9%. Such increase was in line with the revenue growth. In particular, more sales activities were allowed to be conducted in the post-pandemic era and there were new acquired or established companies.

Depreciation and amortisation increased by approximately RMB10.0 million or 7.3%, mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from Last Year.

Other general operating expenditures increased by approximately RMB64.2 million or 48.2%. The increase is mainly attributable to (i) the enhanced investments in the research and development of technology and products of our strategic segments. (ii) the appointment of an experienced external professional consultancy firm to conduct systematic rationalization and improvement in relation to our future development strategy, and (iii) the expanded scale of business and operation of new burial and funeral facilities.

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, during the Year, our operating profit increased by approximately RMB166.6 million or 18.0% compared to Last Year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Year:

	2021		2020	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	1,058,903	55.5%	901,055	57.1%
Funeral services	49,596	14.9%	28,006	11.1%
Other services	(18,240)	(17.4%)	3,321	4.0%
Inter-segment elimination	4,219	(22.8%)	(4,479)	19.0%
Total	1,094,478	47.1%	927,903	49.0%

During the Year, the operating profit margin of burial services decreased to 55.5% from 57.1% for Last Year. The decline was mainly attributable to the combined effect of (i) location mix, in particular, the developing cemetery entities contributed more revenue year by year while their operation profit margins were relatively lower compared to those of mature entities; (ii) the amount of revenue from public welfare plots and tomb relocation increased substantially, which diluted the profit margin, (iii) certain cost items, like staff costs, resumed normal level after the pandemic outbreak last year; and (iv) more investments were made during the Year in all levels of training and introduction of high level personnel.

Funeral services were affected by the COVID-19 outbreak Last Year and certain value-added services and products were unable to be provided in line with social restriction requirements. During the Year, value-added services resumed gradually and this led to an increase in the operating profit margin of funeral services segment to 14.9%.

During the Year, other services segment recorded an operating loss of RMB18.2 million, mainly arising from the enhanced investments in the research and development of technology and products of cremation machines and Fu Shou Cloud, which are our strategic segments. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening of the rules and regulations on environmental protection by the government. Fu Shou Cloud focuses on the application of technology in combined death care and “Internet +” services, which is an important direction of the future development of the Group.

FINANCE COSTS

Finance costs for the Year consisted of interest expenses of RMB1.8 million on bank loans (Last Year: RMB2.6 million), interest expenses of RMB1.5 million (Last Year: RMB2.8 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities and other long-term liabilities of RMB4.0 million (Last Year: RMB4.2 million).

Interest expenses on loans from non-controlling shareholders represent the interest expenses of loans borrowed by certain non-wholly owned subsidiaries from their non-controlling shareholders. These subsidiaries were jointly invested by the Group and those non-controlling shareholders. In addition to the registered capital, our Group and such non-controlling shareholders jointly provided funding to these subsidiaries for their land acquisition and cemetery development via shareholders’ loans based on the respective shareholding percentages. 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, changes in the value of financial assets at fair value, income from management service and consulting service, and donations and etc. Interest income and gain from changes in fair value of unlisted cash management products for the Year was RMB42.8 million, decreased by RMB9.6 million compared to Last Year resulting from the decline in the rate of return on funds in the RMB market and the average balance of funds for the Year. Government subsidies for the Year were approximately RMB33.9 million. Moreover, the Group donated approximately RMB1.6 million to Fu Shou Yuan Public Welfare Foundation during the Year.

INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries are subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Year was 24.6% (Last Year: 22.7%). The effective corporate income tax rate approximates the standard tax rate of 25%.

During the Year, income tax expenses recorded RMB289.6 million, representing an increase of RMB66.8 million or 30.0% as compared to Last Year, which is mainly attributable to the following factors: (i) the increase in taxable income; (ii) the exercise of the share options granted by the Group to the employees forms a base for claiming income tax expense deduction of certain subsidiaries. More share options were exercised in Last Year, resulting in more income tax expense deduction; and (iii) the lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions originally applied to certain subsidiaries in these regions were cancelled and the tax rate of 25% were reinstated.

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 Year amounted to approximately RMB720.0 million, representing an increase of approximately RMB100.0 million, or 16.1% compared to Last Year. This increase was primarily due to the overall growth of our revenue by 22.9%; which was partly offset by the increase in operating expenditures and income tax expenses.

CASH FLOW

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

	2021 <i>(RMB'000)</i>	2020 <i>(RMB'000)</i>
Net cash generated from (used in)		
— operating activities	1,034,115*	904,953*
— investing activities	(690,046)*	(1,191,690)*
— financing activities	(502,485)	(486,383)
Total	<u>(158,416)</u>	<u>(773,120)</u>

* A classification made by the management of the Group in this table does not comply with International Financial Reporting Standards, however, management considers that this classification can better reflect the nature of the Group's business and can make the information disclosed more comparable. The net cash generated from operating activities disclosed in the audited financial statements amounted to approximately RMB992.4 million (Last Year: RMB822.3 million) and the net cash used in investing activities as disclosed in the audited financial statements amounted to approximately RMB648.3 million (Last Year: RMB1,109.1 million). During the Year, an amount of approximately RMB41.7 million (Last Year: RMB82.6 million) related to the net payment for cemetery land acquisition and it was here classified under the cash used in investing activities, instead of cash used in operating activities.

Our cash generated from operating activities is 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. During the Year, our net cash generated from operating activities amounted to RMB1,034.1 million, representing an increase of approximately RMB129.2 million or 14.3% as compared to Last Year, maintaining our competitiveness as always in generating cash from our operating activities.

During the Year, our net cash used in investing activities amounted to RMB690.0 million. It was primarily attributable to: (i) net amount of investment for time deposits, entrusted loans and other financial assets of RMB268.7 million; (ii) payment for investment in equity fund totalling RMB152.2 million; (iii) payment of RMB148.2 million for the acquisition of operating rights of subsidiaries, cemeteries and funeral parlors as well as other investments; (iv) payment for building new burial and funeral facilities and capital expenditures for upgrades and maintenance in other cemeteries and funeral facilities, and construction expenditure of the operating system in total of RMB128.6 million; (v) net payment for cemetery land acquisition of RMB41.7 million; and these were partially offset by: (i) the interests and gains from unlisted cash management products received of RMB44.2 million; (ii) the repayment of entrusted loan from third parties received of RMB7.0 million.

During the Year, our net cash used in financing activities amounted to RMB502.5 million. It was primarily attributable to: (i) final dividends for 2020 and interim dividends for 2021 paid to shareholders of the Company of approximately RMB214.3 million in aggregate; (ii) dividends paid by subsidiaries to their non-controlling shareholders of approximately RMB128.4 million; (iii) repayment of loans to non-controlling shareholders and third parties of approximately RMB65.8 million and a net reduction in bank loans of approximately RMB54.4 million; (iv) purchase of shares of the Company by scheme trustee under the Restricted Share Incentive Scheme, which resulted in net cash outflow of approximately RMB72.0 million; (v) settlement of payment for lease liability of approximately RMB23.9 million; (vi) interest payment of approximately RMB3.2 million for borrowings; and these were partially offset by: (i) the proceeds of RMB41.8 million received upon exercise of share options by our employees; (ii) the net capital contribution from the non-controlling shareholders of certain of our non-wholly owned subsidiaries totalling RMB14.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2021, the Group had bank balances and cash of approximately RMB1,075.6 million (December 31, 2020: RMB 1,234.0 million), time deposits of RMB285.7 million (December 31, 2020: RMB Nil) and unlisted cash management products of approximately RMB666.0 million (December 31, 2020: RMB982.9 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 Group at its discretion. Such assets are highly dispersed and are managed by certain state-owned banks, with expected annualized return rates ranging from 2.35% to 3.90%. 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 not guaranteed by the issuing banks and are determined with reference to the performance of the underlying assets, such as government debt instruments, treasury notes and corporate bonds with high credit ratings, their principals and return rates are secured in substance considering the features and historical performance of such products and present situation of banking 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 if any financing requirements arise in the future. The Board confirmed that the transactions in financial assets for the Year, on a standalone basis and aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

We had no outstanding bank borrowings as at December 31, 2021.

In addition, we had undrawn bank borrowing facilities of approximately RMB16.4 billion as at December 31, 2021.

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, 2021 was 0.5% (December 31, 2020: 1.0%). 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 December 31, 2021, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 98.0%, 0.6% and 1.4%, 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 May 2021, the Group entered into an agreement to acquire 100% equity interest in Anhui Longmen Cultural Cemetery Co., Ltd* (安徽龍門文化陵園有限公司) (“**Anhui Longmen**”) for a consideration of approximately RMB88 million. Anhui Longmen is engaged in the provision of cemetery operation in Suzhou of Anhui Province. The acquisition was completed in August 2021.

In March 2021, the Group entered into an agreement, in order to acquire 90% equity interest in Heze Fuluyuan for a consideration of approximately RMB90 million subject to further commercial negotiation readjustment of the consideration. Heze Fuluyuan is engaged in the provision of cemetery operation in Heze of Shandong Province. The acquisition was completed in December 2021.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2021, we had 2,464 full-time employees (December 31, 2020: 2,345). We offer competitive packages and benefits to our staff. We also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with necessary skills and are remunerated according to their performance.

We have adopted the Restricted Share Incentive Scheme on November 29, 2019 to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of funeral facilities, cemetery assets and property and equipment in a total amount of approximately RMB59.2 million as at December 31, 2021.

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.54 million sq.m. as at December 31, 2021 (December 31, 2020: approximately 2.44 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

We had settled most of the lawsuits without substantial losses by the end of year 2021, with five outstanding lawsuits remaining, and all of which are related to one of our indirect and wholly-owned subsidiaries, Wuyuan Wanshoushan Cemetery as a defendant, which have also been disclosed in our previous announcements. The aggregate of claim amount of these five lawsuits was approximately RMB63.38 million (including the claimed principal and contingent interests) as at December 31, 2021.

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, 2021, 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 YEAR

There were no other significant events that might affect the Group subsequent to the Year.

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 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 promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at a more steady and sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our Shareholders with the best returns.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, May 25, 2022 and the notice of AGM is expected to be published and despatched to the Shareholders on or about Monday, April 25, 2022.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK5.64 cents per Share for the Year (Last Year: HK5.53 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 Thursday, June 30, 2022. 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 Tuesday, June 21, 2022.

CLOSURE 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 Friday, May 20, 2022 to Wednesday, May 25, 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all share transfer documents 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, May 19, 2022.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Friday, June 17, 2022 to Tuesday, June 21, 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all share transfer documents 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, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, June 16, 2022.

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 for the Year.

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 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 during the Year.

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

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

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

PUBLICATION OF ANNUAL RESULTS AND 2021 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 annual report for 2021 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“AGM”	annual general meeting of the Company to be held on May 25, 2022
“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Fushouyuan Civil Service Co., Ltd.* (安陽福壽園民生服務有限公司), formerly known as Anyang Wulong Civil Service Co., Ltd* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“ASP”	average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“CG Code”	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 on January 5, 2012
“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 Hong Kong on October 10, 2011. It is a direct held subsidiary of the Company
“Gansu Hailinjinggang”	a cemetery in Lanzhou City of Gansu Province and operated by Gansu Hailinjinggang Industrial Co., Ltd.* (甘肅海林嶠港實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the company since November 30, 2020
“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 2017
“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”	Zheng’an Fu Shou Yuan Industrial Co., Ltd.* (正安縣福壽園實業有限公司), formerly known as 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 Inner Mongolia Fu Shou Yuan Industrial Co., Ltd.* (內蒙古福壽園實業有限公司), formerly known as 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, Xinzheng City 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
“Harbin Mingxiyuan Cemetery”	a cemetery in Harbin, Heilongjiang Province and operated by Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司), 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 and operated by Hubei Tiansheng Cemetery Co., Ltd.* (湖北天聖公墓有限公司) a limited company established under the laws of the PRC and became a subsidiary of the Company since January 2019
“Jinsha Fuze”	Jinsha Fuze Binzang Co., Ltd.* (金沙縣福澤殯葬有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Jinzhou Maoshan Anling”	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Last Year”	the year ended December 31, 2020
“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 2017
“Meilin Century Cemetery”	a cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Nanchang Hongfu”	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the Company with effect from November 29, 2019
“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 Group 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 2017
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

“US\$” or “US dollar”	United States dollars, the lawful currency of the United States
“Wuyuan Wanshoushan Cemetery”	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Year”	the year ended December 31, 2021
“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 Fu Shou Yuan Funeral and Burial Service Co., Ltd.* (棗莊市福壽園殯葬服務有限公司), formerly known as Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
“%”	per cent.

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

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

Hong Kong, March 18, 2022

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. Lu Hesheng, Mr. Huang James Chih-Cheng and Ms. Zhou Lijie; and the independent non-executive Directors are Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man, Ms. Liang Yanjun and Mr. Chen Xin.