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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2022

2022 INTERIM RESULTS HIGHLIGHTS

- Total revenue for the six months ended June 30, 2022 amounted to approximately RMB906.4 million, representing a decrease of approximately 20.6% when compared to that of the six months ended June 30, 2021.
- Profit and total comprehensive income attributable to owners of the Company for the six months ended June 30, 2022 amounted to approximately RMB261.1 million, representing a decrease of approximately 28.9% when compared to that of the six months ended June 30, 2021.
- Basic earnings per Share for the six months ended June 30, 2022 amounted to approximately RMB11.5 cents, representing a decrease of approximately 28.6% when compared to that of the six months ended June 30, 2021.
- The Board has declared an interim dividend of HK5.64 cents per Share for the six months ended June 30, 2022.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the unaudited consolidated financial results of the Group for the six months ended June 30, 2022 together with the comparative figures for the same period of last year as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED JUNE 30, 2022

		For the six months ended June 30,	
		2022	2021
	<i>NOTES</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	906,393	1,141,620
Operating expenditures			
Staff costs		(210,595)	(233,121)
Construction costs		(51,144)	(44,146)
Consumed materials and goods		(70,119)	(91,374)
Outsourced service costs		(18,654)	(21,465)
Marketing and sales channel costs		(16,328)	(23,775)
Depreciation and amortisation		(77,659)	(72,535)
Other general operating expenditures		(61,040)	(90,623)
Inventory changes		8,364	4,592
Impairment losses under expected credit loss model, net of reversal		—	(3,821)
Profit from operations		409,218	565,352
Other income, gains and losses		34,494	47,350
Share of loss of joint ventures		(3,240)	(3,765)
Finance costs		(2,214)	(2,682)
Profit before taxation	5	438,258	606,255
Income tax expense	6	(111,258)	(150,620)
Profit and total comprehensive income for the period		327,000	455,635
Profit and total comprehensive income attributable to:			
Owners of the Company		261,099	367,373
Non-controlling interests		65,901	88,262
		327,000	455,635
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
— Basic	7	11.5	16.1
— Diluted	7	11.5	16.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2022

		June 30, 2022	December 31, 2021
	<i>NOTES</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property and equipment	8	589,012	582,636
Right-of-use assets		110,023	115,122
Investment property		6,509	6,509
Intangible assets		272,701	266,335
Goodwill	9	1,091,243	1,048,660
Financial assets at fair value through profit or loss (“FVTPL”)	14	38,110	38,110
Deposits paid for acquisition of leasehold land as cemetery assets		29,598	27,454
Cemetery assets	10	1,936,802	1,937,662
Investment in an associate		750	5,750
Investments in joint ventures		137,127	190,249
Restricted deposits		83,498	69,379
Deferred tax assets	18	80,938	76,630
Other long-term assets		5,000	5,000
		4,381,311	4,369,496
Current assets			
Inventories	11	555,821	544,487
Trade and other receivables	12	487,373	159,624
Financial assets at fair value through profit or loss	14	564,563	965,973
Time deposits	15	47,332	285,677
Bank balances and cash	13	1,360,344	1,075,606
Contract assets		—	4,587
		3,015,433	3,035,954

		June 30, 2022	December 31, 2021
	<i>NOTES</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Current liabilities			
Trade and other payables	16	687,279	761,339
Lease liabilities		16,079	17,276
Contract liabilities	17	75,103	72,508
Loans from non-controlling shareholders of subsidiaries		25,773	27,184
Income tax liabilities		138,448	202,880
		<u>942,682</u>	<u>1,081,187</u>
Net current assets		<u>2,072,751</u>	<u>1,954,767</u>
Total assets less current liabilities		<u>6,454,062</u>	<u>6,324,263</u>
Non-current liabilities			
Lease liabilities		40,077	44,140
Contract liabilities	17	459,854	434,022
Deferred tax liabilities	18	136,908	137,068
Other long-term liabilities		37,030	36,713
		<u>673,869</u>	<u>651,943</u>
Net assets		<u>5,780,193</u>	<u>5,672,320</u>
Capital and reserves			
Share capital		142,179	142,179
Reserves		5,054,433	4,901,261
Equity attributable to owners of the Company		5,196,612	5,043,440
Non-controlling interests		583,581	628,880
Total equity		<u>5,780,193</u>	<u>5,672,320</u>

NOTES TO THE CONDENSED 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 Period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRSs”) that are mandatorily effective for the Year.

The application of the Amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Burial services	727,553	969,118
Funeral services	164,460	162,124
Other services	22,317	17,209
Inter-segments elimination	(7,937)	(6,831)
	<u>906,393</u>	<u>1,141,620</u>

Geographical information:

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

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Shanghai	328,550	494,600
Anhui	91,533	98,902
Liaoning	74,224	102,765
Shandong	63,744	50,499
Jiangsu	57,795	59,916
Jiangxi	55,010	62,660
Henan	47,534	58,693
Chongqing	45,782	48,407
Heilongjiang	30,574	53,440
Fujian	27,157	24,119
Guizhou	25,783	26,603
Zhejiang	22,712	22,459
Gansu	8,023	9,413
Inner Mongolia	7,793	8,346
Guangxi	5,192	10,179
Hubei	607	241
	<u>892,013</u>	<u>1,131,242</u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs, including remuneration of the Directors		
Salaries, wages, bonus and other benefits	192,670	219,144
Retirement benefits scheme contributions	17,925	13,977
	<hr/>	<hr/>
Total staff costs	210,595	233,121
	<hr/>	<hr/>
Depreciation of property and equipment	26,970	25,602
Amortization of right-of-use assets	12,026	12,033
Amortization of intangible assets	6,882	3,864
Amortization of cemetery assets	31,781	31,036
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6. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax (“PRC EIT”)		
Current period	120,232	155,377
Over provision in prior years	(2,802)	—
Deferred tax	(6,172)	(4,757)
	<hr/>	<hr/>
	111,258	150,620
	<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:

	For the six months ended June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (<i>RMB'000</i>)	<u>261,099</u>	<u>367,373</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,271,566,422	2,284,987,541
Effect of dilutive potential ordinary shares: Share options	<u>—</u>	<u>220,920</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,271,566,422</u></u>	<u><u>2,285,208,461</u></u>

8. PROPERTY AND EQUIPMENT

	June 30,	December 31,
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Buildings	365,895	369,669
Leasehold improvements	8,959	9,680
Furniture, fixtures and equipment	51,655	51,177
Motor vehicles	14,222	13,637
Construction in progress	<u>148,281</u>	<u>138,473</u>
	<u><u>589,012</u></u>	<u><u>582,636</u></u>

9. GOODWILL

The movements of goodwill for the six months ended June 30, 2022 are as follows:

	<i>RMB'000</i>
COST	
At January 1, 2022 (Audited)	1,048,660
Arising from consideration change	4,989
Arising from acquisition of a subsidiary	<u>37,594</u>
At June 30, 2022 (Unaudited)	<u><u>1,091,243</u></u>

10. CEMETERY ASSETS

	June 30, 2022 <i>RMB'000</i> (Unaudited)	December 31, 2021 <i>RMB'000</i> (Audited)
Land costs	1,308,988	1,316,177
Landscape facilities	262,638	257,028
Development costs	<u>365,176</u>	<u>364,457</u>
	<u><u>1,936,802</u></u>	<u><u>1,937,662</u></u>

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

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

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

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

11. INVENTORIES

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Burial plots	396,054	393,004
Tombstone	96,310	99,636
Others	63,457	51,847
	555,821	544,487

12. TRADE AND OTHER RECEIVABLES

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	137,127	112,165
Less: Allowance for credit losses	(3,821)	(3,821)
	133,306	108,344
Other receivables comprise:		
Prepayments and rental deposits on properties	4,436	2,564
Other service receivables	6,000	14,000
Staff advances	1,349	2,962
Receivables from liquidation of a partnership (<i>Note</i>)	256,000	—
Deposits for new projects	3,985	7,658
Prepayments to suppliers	7,256	11,373
Interest receivables	1,118	413
Loans to third parties in connection with cemetery projects	60,192	2,152
Others	13,731	10,158
	487,373	159,624

Note: In January 2021, 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 contributed RMB300,000,000, accounting for approximately 13.04% of the total capital commitment to Hainan Tongyuan and this investment is measured at FVTPL. In December 2021, a resolution was passed among all the partners whereby Hainan Tongyuan was scheduled to be dissolved in 2022. During the Period, RMB44,000,000 has been received, the outstanding and pledged receivable was RMB256,000,000, which was collectible in accordance with the timetable as agreed in the related contract.

The aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date at the end of reporting period is as follows:

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
Within one year	83,527	90,399
Over one year but less than two years	46,964	15,571
Over two years but less than three years	1,109	1,805
Over three years	1,706	569
	<u>133,306</u>	<u>108,344</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 end of the reporting period.

13. BANK BALANCES AND CASH

Bank balances of the Group denominated in RMB, HK\$ and US Dollar (“US\$”) carry variable-rate interest as follows:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Interest rate per annum		
— RMB	0.30%–2.03%	0.30%–2.03%
— HK\$	0.01%	0.01%
— US\$	0.01%–0.05%	0.05%

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

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
HK\$	45,463	15,093
US\$	834	797
	<u>46,297</u>	<u>15,890</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Unlisted cash management products	564,563	665,973
Equity investment	38,110	338,110
	602,673	1,004,083

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

Details of the structured deposit and a number of cash management products at June 30, 2022 are as follows:

Bank	Name of products (note)	Currency	Amount RMB'000	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Zhou Zhou Xiang Ying Zeng Li (週週享盈增利1號)	RMB	153,000	7 days cycle	2.98%	N
Shanghai Pudong Development Bank	Yue Yue Xiang Ying (月月享盈定開3號)	RMB	50,309	Redeemable on call after 1 work day on work day	2.46%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Tian Tong Ying (天添利浦天同盈1號)	RMB	19,558	Redeemable on call after 1 work day on work day	2.10%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan (天添利普惠計劃)	RMB	17,708	Redeemable on call after 1 work day on work day	2.05%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利6個月定開R款)	RMB	8,800	Redeemable on call after 180 work days on work day	3.45%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利6個月定開T型)	RMB	5,500	Redeemable on call after 180 work days on work day	3.65%	N
Shanghai Pudong Development Bank	Yue Yue Xin (月月鑫最短持有期)	RMB	3,500	Redeemable on call after 1 month on work day	1.79%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利12個月定開D款)	RMB	3,000	27/07/2022	3.85%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利12個月定開F款)	RMB	2,500	19/08/2022	3.75%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利12個月定開N款)	RMB	2,000	28/12/2022	3.70%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利6個月定開V型)	RMB	1,300	Redeemable on call after 180 work days on work day	3.50%	N

Bank	Name of products <i>(note)</i>	Currency	Amount <i>RMB'000</i>	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Xin Xiang Li (鑫享利系列)	RMB	1,300	Redeemable on call after 180 work days on work day	3.60%	N
Shanghai Pudong Development Bank	Yue Ying Li (悦盈利6個月定開W款)	RMB	800	Redeemable on call after 180 work days on work day	3.40%	N
Subtotal		RMB	<u>269,275</u>			
China Construction Bank	Qian Yuan Heng Ying (乾元 — 恒贏(法人版))	RMB	100,005	Redeemable on call after 1 work day on work day	2.14%	N
China Construction Bank	Hui Zhong Ri Sheng (惠眾日申周贖產品)	RMB	100,000	7 days cycle	3.04%	N
Subtotal		RMB	<u>200,005</u>			
Bank of Shanghai	Yi Jing Ling (易精靈)	RMB	50,000	Redeemable on call after 1 work day on work day	3.20%	N
Subtotal		RMB	<u>50,000</u>			
Shanghai Rural Commercial Bank	Xin Zeng Li (鑫增利20047期)	RMB	30,000	07/07/2022	3.80%	N
Shanghai Rural Commercial Bank	Ri Xin Tian Tian Ying (日鑫天天盈C款)	RMB	15,283	Redeemable on call after 1 work day on work day	2.30%	N
Subtotal		RMB	<u>45,283</u>			
Total		RMB	<u><u>564,563</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. In the opinion of the Directors, the fair value was approximately RMB38,110,000 as at June 30, 2022.

15. TIME DEPOSITS

June 30, 2022	December 31, 2021
RMB'000	RMB'000
(Unaudited)	(Audited)
47,332	285,677

As at June 30, 2022, the Group had fixed-term deposits of RMB47,332,000 in banks in the PRC with maturity of six months to one year and fixed interest rate ranging from 0.35% to 2.10% per annum (December 31, 2021: fixed interest rate ranging from 0.01% to 2.30% per annum).

16. TRADE AND OTHER PAYABLES

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	271,354	281,752
Other payables comprise:		
Advances and deposits from customers	36,168	32,054
Payables for acquisition of property and equipment	996	888
Salary, welfare and bonus payables	80,502	158,442
Other accrued expenses	47,099	52,575
Consideration payable for acquisition of subsidiaries	116,967	168,277
Consideration payable for acquisition of non-controlling interests	3,936	6,070
Reimbursed payables due to third parties	57,049	—
Provision for claims in litigation (<i>note</i>)	17,812	—
Others	55,396	61,281
	687,279	761,339

note: refer to the Contingent Liabilities.

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

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
0-90 days	78,139	101,794
91-180 days	31,628	29,159
181-365 days	51,030	32,079
Over 365 days	110,557	118,720
	<u>271,354</u>	<u>281,752</u>

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

17. CONTRACT LIABILITIES

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
Cemetery maintenance services	492,880	467,804
Sales of pre-need contracts	42,077	38,726
	<u>534,957</u>	<u>506,530</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 estimate based on the projected increases, such as increase in the labor cost and the incremental maintenance expense as a result of increase in future sales. Total estimated cemetery maintenance expense plus a reasonable margin, offset by estimated maintenance fees to be received, 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 occurring. 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 offered.

18. DEFERRED TAXATION

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

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
Contract liabilities and loss allowance	57,176	54,670
Unused tax losses	21,726	19,939
Fair value adjustments	<u>(134,872)</u>	<u>(135,047)</u>
	<u>(55,970)</u>	<u>(60,438)</u>

19. DIVIDENDS

During the Period, the Company has declared and paid the final dividend of HK5.64 cents per Share for 2021, amounting to approximately RMB111.2 million in total.

On August 19, 2022, an interim dividend in respect of the six months ended June 30, 2022 of HK5.64 cents per Share was declared by the Directors.

CHAIRMAN’S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the results of the Group for the six months ended June 30, 2022 to all shareholders for review.

In the first half of 2022, the Omicron variant came in fiercely. In order to cut off the transmission chain as early as possible, many places across the country pressed the slow-forward button and pause button to balance public health security and Economic social movement in a “dynamic zero-COVID policy”. Under the severe and complex situation of epidemic prevention, the Group maintained stable development in the first half of 2022 and recorded total revenue of RMB906.4 million. Net profit amounted to RMB327.0 million, of which profit and total comprehensive income attributable to owners was RMB261.1 million.

As disclosed in the announcement published in May 2022, based on the good prospect of the Group’s future development, after considering multiple factors including the actual operating conditions, profit level, operational liquidity, strategy as well as sustainable development, in order to establish a continuous and stable high return mechanism for investors and to share the operational achievement with all the shareholders, the Board announced that the updated dividend policy of the Company has been approved and adopted to increase the dividend rate to not less than 35% of profit attributable to the shareholders of the Company for the year, and it is expected to be raised to 60% or above on a year-to-year basis of profit attributable to the shareholders of the Company for the year in the future, thus making the Company an enterprise with high development as well as high dividend ratio. The Board declared an interim dividend of HK5.64 cents per Share for the six months ended 30 June 2022 to the Shareholders in appreciation of their support.

During the Period, Fu Shou Yuan continued to respond the national construction of “digital economy”, expanded the Internet thinking, embed digital technology in traditional businesses, and promote the process of industrial digitalization. Nowadays, “Internet+ death care service” has gradually become a new trend in death care industry. The R&D and application of digital cemetery is the deepening integration mode of traditional transformation. Innovative measures such as online commemoration, remote funerals and valet execution have gotten rid of physical constraints caused by the epidemic isolation, while preserved the solemnity of the rituals and the reverence brought by going to the site to worship to the greatest extent. In the first half of 2022, Fu Shou Yuan International Group officially launched the “Digital Cemeteries • Huixin Valley” project which, based on the upgraded platforms of “Online Tombsweeping”, “Online Blessing” and “Online Memorial”, is a brand-new digital integrated service facility that is beautiful in the landscape, sophisticated in technology and rooted in culture. With the concept of intensification and ecology, the project effectively solved the contradiction between the scarcity of resources and the need for passing away in peace through the digital carrier of spiritual services. The first batch of products of the project include

“Digital Cemetery 1.0”, digital ritual burial, digital ritual memorial, and “Online Memorial 3.2”. From now on, this is not only the destination of physical life, but also the home of spiritual life. As a digital cemetery with the advantages of both, Huixin Valley presents a humanistic park of digital with the perfect integration of virtual and reality. In the future, Fu Shou Yuan will also launch a series of phygital products, which will bring infinite possibilities to restore the beauty of life through science and technology.

Committed to building an industry-leading ESG business model, Fu Shou Yuan adheres to the sustainable development strategies of environment protection, technology-driven, public welfare, historical heritage and life education, strives to assume corporate, social, industrial, historical and public responsibilities and builds a caring and heart-warming life service system. The Group has always led the new trend of the eco-friendly and civilized industry which integrated green concepts into products and services as well as built ecological parks to contribute to realizing green-oriented transition. At the same time, the Group carried out assistance and poverty alleviation construction in many places through the public welfare foundation, cultivated modern death care management talents and professional technical talents through Fu Shou Yuan Life Service Academy, and communicated with the global industry workers deeply and continuously to realize cultural transmission and integration. In June 2022, the 2022 “Sages and Shanghai’s Urban Memory” forum, jointly hosted by the Shanghai Society of History of Communist Party of China, the Shanghai Communist Party History Figures Research Center, and the Humanities Memorial Museum of Shanghai Fu Shou Yuan, was broadcast on multiple platforms with the theme of “Youth in Centennial Elegance”. Over the years, the forum has formed a resonance with history and the times around the two focuses of “people and city”, “things and feelings”, contributing to the inheritance of history.

Fu Shou Yuan has been committed to public welfare undertakings in death care industry 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 well-being, building a harmonious society and promoting enhanced adjustment to bereavement and loss at the end-of-life. For more than 20 years, it has focused on social public welfare and charities, covering many fields, such as targeted poverty alleviation, caring for vulnerable groups, community charity, education and teaching assistantship, spiritual rescue, life education, environmental protection, etc. In 2018, Fu Shou Yuan initiated the establishment of Shanghai Fu Shou Yuan Public Welfare Development Foundation as an interface for enterprises to operate and manage public welfare projects, pushing the road of practice and innovation of social responsibility and life service to a new stage of more standardized and scientific sustainable development.

In the first half of the year, both Shanghai and Hong Kong were plagued by the pandemic. Shanghai Fu Shou Yuan Public Welfare Development Foundation launched the campaign of “Assisting Hong Kong in Fighting the Epidemic Together”, strengthened the exchange of pandemic prevention work between the two places, and donated 60,000 N95 masks that worth HK\$1.8 million to Precious Blood Hospital (Caritas) in Hong Kong. The Foundation hopes that through this campaign, it will fully demonstrate our social responsibility as a listed company in Hong Kong, as well as our concerns, care and support for Hong Kong compatriots in fighting the epidemic. The Foundation took active action to raise supplies such as medical surgical masks and donated them to 17 medical institutions in Xuhui District, Shanghai; at the same time, it fully participated in the procurement of pandemic prevention materials to help the city’s nursing homes fight the pandemic, and widely participated in community voluntary services. The Foundation took the initiative to make donations with the government of Mengyue Township, Longchuan County, Yunnan Province, to contribute to the collective economic development of Wamu Village; join hands with China Siyuan Foundation For Poverty Alleviation and Tencent Charitable Foundation, Micro Public Good, ByteDance Welfare and other institutions to light up the blue light of the Oriental Pearl and speak for autistic children. All measures uphold and reflect the consistent corporate social responsibility and public welfare awareness of Fu Shou Yuan.

During the Period, the industry and society highly recognized the operation, governance and corporate responsibility of Fu Shou Yuan. In January, Fu Shou Yuan was honored as the “Most Socially Responsible Listed Company” at the 6th Golden Hong Kong Stock Awards Ceremony due to its excellent performance in results growth, industry ranking and corporate governance in the past year. In addition, Fu Shou Yuan won the “2021 Award of Socially Responsible Listed Company” for its outstanding performance in fulfilling corporate social responsibility. Fu Shou Yuan also participated in the “2021 Corporate Social Responsibility Carnival” organized for the first time, and working together with responsible brands in various industries to jointly build a business force for the good. In February, two design projects selected by the Temshine Cemetery Design Group Ltd., a subsidiary of the Group, won the Silver Award and the Nomination Award of the 2022 Berlin Design Award respectively, which are the groundbreaking awards in the industry. On the May Day, the “Flower of Life” customer service group of Shanghai Fu Shou Yuan was appraised as “Pioneer of National Workers” by the All-China Federation of Trade Unions, becoming a benchmark for funeral services.

Since ancient times, Chinese people have been attaching great importance to the “filial piety” and consider it to be the first among all behaviors. As such, the culture of filial piety and respect for the elderly has become an important foundation for promoting the development of the death care service industry. With the increase in aging population, the acceleration of urbanization, the rising living standards and consumer spending in China continues to increasing with per capita spending in death care services and expanding market scale, implying vast opportunities for China to comfortably grow into one of the globally leading death care service market on which Fu Shou Yuan currently focused. “The deceased is well arranged, and it is also respected”, meeting the expectations of the people for a better life is our goal.

At present, the development of Fu Shou Yuan has entered a new stage, upgrading from an integrated death care service provider to an integrated life service operator. Under the huge demand and market prospect of funeral and life services, with the industry-leading operation concept, multi-engine driving and scale expansion strategy, Fu Shou Yuan will further make efforts in the fields of service extension, technology guidance, cultural innovation and so on, to meet the diversified and differentiated service needs of various customers, especially at the spiritual level, and is committed to the sustainable, healthy and high-quality development of the enterprise.

Fu Shou Yuan will continue to uphold the corporate tenet of “human-oriented and culture rooted”, support the inheritance of traditional culture by providing services for the benefit of the people with its strengths in life services. Fu Shou Yuan will strive to explore a new development mode of the industry in the future, stick to social responsibility, help improve funeral facilities, promote green funeral reform, realize the harmonious coexistence between people and the environment, strive for a better life for people, and create better returns for our Shareholders.

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. In the new era, people's desire for a better life has extended from "life" to "death". Improving the quality of people's afterlife services and achieving "peaceful death" have become the major issues in the field of death care service and have been promoting the development of China's death care service industry in depth.

In China, the level of urbanization has advanced steadily with further intensified population aging, and the cremation rate of remains has continued to increase. 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. 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 was 64.72%, representing an increase by 0.83 percentage point compared with the end of 2020. In 2021, the cremation rate of remains reached 58.8%, representing an increase of 3.8 percentage point compared with 2020. Looking ahead, 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. With the continuous advancement of funeral reforms and customs transforms, the cremation rate of remains in China will further increase rapidly. The aging population trend, the acceleration of the new urbanization process and the increased cremation rate of remains will give rise to a massive demand for death care services in the market.

In recent years, the death care service sector in China has been continuously deepening reform and innovation, strengthening system construction, and advancing the modernization of the governance system and governance capacity in death care service. Since 2021, the Ministry of Civil Affairs of the PRC and governments at all levels have issued the 14th Five-Year Plan on the Development of Civil Affairs (《「十四五」民政事業發展規劃》), which will further improve the public death care service system, and improve the government's ability to provide basic death care services. It 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, 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. 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.

The “Decentralization-Control-Service” reform is also being steadily implemented. In March 2022, the State Council issued the Guiding Opinions on Accelerating the Standardization, Normalization and Facilitation of Government Services (《關於加快推進政務服務標準化規範化便利化的指導意見》), which continues to optimize government services, constructs a new development layout, accelerates the transforming of government functions, deepens the “Decentralization-Control-Service” reform, continues to optimizes the operational environment, strengthens the cross-level, cross-region, cross-system, cross-department and cross-business collaborative management and services. In June 2022, the China Social News (《中國社會報》) governed by the Ministry of Civil Affairs of the PRC published a signed article, suggesting that it is necessary to accelerate the ‘Decentralization-Control-Service’ reform in the death care service industry to clearly delineate between public welfare and the market, in order to completely solve the problem of the separation of public welfare and commercial death care service agencies. The market regulation directions of the government and the “Decentralization-Control-Service” reform will further stimulate market vitality, which will be beneficial for the Group to make more positive contributions to the death care service industry.

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」民政信息化發展規劃》), 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 (《網絡祭祀服務規範》), which sets out the basic requirements for providing online worshipping services, service procedure, and standards for online memorial halls and its evaluation and improvement. According to incomplete statistics, during the Qingming Festival in 2022, over 21 million people participated in online worshipping, representing an increase of 192% compared with the same period last year. The Internet is advancing the transformation service and upgrading of death care services from traditional to modern. “Internet + death care” empowers death care services with information technology. It is accelerating the standardization of death care services and boosting the high-quality development of death care services.

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, an aging population and the cremation rate of remains 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 care 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 service industry in the PRC.

BUSINESS COMMENTARY

During the Period, the international environment has become more complex and challenging given the intensified international geographical conflicts, increasingly volatile commodity market and continuous rate hike by the Federal Reserve. Meanwhile, sporadic pandemic outbreaks were seen in many places in the PRC, especially after mid-March when the pandemic has spread to many provinces in the PRC, with the consuming market taking a big hit. However, as the pandemic prevention yielded positive results and the policies to promote consumption began to take effect since June, the consuming market has been on a track of resumption. In the first half of the year, the country's GDP accumulated to RMB56,264.2 billion, representing a year-on-year increase of 2.5% on constant price basis, and the overall economy is presenting a stable and resuming trend.

During the Period, the regular operation of several major cemeteries of the Group were restricted as the cities where they are located are under stationary management due to the pandemic. The Group prioritizes on assuring the safety of our customers and employees, and strictly complies with various pandemic prevention policies and regulations, enabling all subsidiaries to weather through the pandemic. During the same time, the Group concentrated on sustainable and fast development amidst the new era and environment. We explore in the dual dimension of both market and product, making efforts in multiple fronts including service expansion, technology leadership and cultural innovation, thereby satisfying the diversified and differentiated consumer needs of customers, especially on the spiritual front. In addition, the "Fu Shou Yuan Life Service Academy" has enhanced its front-tier research on industry and policy system, which allows us to capitalize on talent nurturing and business empowering.

In relation to cemeteries and funeral facilities, as the Group introduced the strategic plan of "extending Fu Shou Yuan from the earthly realm to the spiritual" at the beginning of this year, the design and construction of our burial facilities have also made new breakthroughs via concept exploration and technological innovation, which includes the R&D progression in the new generation of products represented by "Huixin Valley", a thematic cemetery, as well as the refinement of the engineering management system represented by "Engineering Procurement Construction" ("EPC").

Empowered by digital facilities, Huixin Valley Project introduced a new concept for next generation's cemetery products, taking a solid step to develop our contemporary cemetery of humanistic memorial into digital life park of the future. The park not only increased land utilization rate through stereoscopic space design, but also, through the innovation of crystal tombs, bridged the gap between tomb cemetery and art, making a quantum leap from physical product to an emotional one. In addition, empowered by a series of technology, including intelligent interactive screens, digitalized Nine Ceremonies and other intelligent tomb-sweeping services as well as digital backup of online cemetery, Huixin Valley is preliminarily equipped to enter the "Metaverse". In addition to iterations and upgrades of existing burial products, we further expanded our definition of products from mere tombstone and burial place to a comprehensive consumer scenario integrating environment, service and experience. We have accordingly developed our specialized design of ceremony burial place and divided the cemetery into different burial sceneries with unique styles and themes, which not only provides clients with scenic setup for their burial ceremony, but also becomes trending "Check-in Spot" people talk about, further increasing the overall value of the Group's products.

During the Period, Temshine, a wholly-owned subsidiary of the Company, gradually implemented the EPC model across the Group, which, after a period of experimentation and analysis, promoted our construction quality to a certain level. The implementation of EPC model fully demonstrates the advantages of Group's internal resources integration, which significantly reduced the communication cost between design and construction, increased management efficiency of the whole process of the engineering program and minimized uncontrollable factors. Looking ahead, the refining EPC model can also provide service to projects outside of the Group, and gradually develop professional agent construction business for burial and funeral facilities. With the growing demand for constructing burial and funeral facilities in the PRC, the establishment and development of EPC model is a positive driving force of and serves strategic value for exploring new service content of the Group in the future and driving increase in new values.

In relation to the funeral services business, we continued to focus on anti-corrosion cosmetics, body SPA, environmental-friendly paper coffins and ceremony services, devoted to promoting services regarding the remains, innovating services, improving technology and cultural connotations, to fulfill the differentiated and diversified service demands of clients and lead the development of the industry. At the same time, we further expanded and optimized the scope and process of centralized procurement, and actively promoted the strategy of cultural and creative products. Through cultural and brand empowering of traditional funeral equipment, we successfully pushed forward the transformation from "practical products" to "cultural and creative products", thus improving customers' consumption experience and satisfaction.

Against the backdrop of regular epidemic prevention and control, we continued to expedite the completion and optimization of the series of online products. Firstly, we carried on the empowering of management innovation technology on the corporate end, as Fu Shou Yun, a wholly-owned subsidiary of the Company, completed a property management system driven by digital twins, enhancing management efficiency and lowering costs by means of digital empowerment. Secondly, we continued to optimize and improve cloud memorial services by completing the transformation from “online tomb-sweeping” to “online memorial”, with the service platform upgraded to version 3.2, integrating multiple sectors such as online tomb-sweeping, online photo album, online obituary, online wake, online livestreaming, online communal memorial and online blessing, etc., as well as adding and upgrading various functions such as generating life micro-films, restoring old photos, documenting life stories and digital memorial halls, to fulfill various memorial and worshipping needs of customers under the pandemic. During the Qingming Festival (Tomb-Sweeping Day), customer usage of the service platform amounted to over 100 million, hitting a record high. By combining traditional culture and modern ceremony empowered with technology, we effectively pushed forward the transition of funeral and mourning rituals from traditional material level to a deeper spiritual level.

As an important strategic pivot of the Group, pre-need contract services help 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-need contract services attract more customers wishing to make their after-death arrangements earlier, and have also gained the recognition, support and service orders from governments at all levels and elderly service institutions. Although the volatile situation of the COVID-19 outbreak during the Period has brought various challenges to the pre-need contract business, it still reached a new high with a total of 7,834 signed contracts in the first half of 2022, representing an increase of 17% over the same period of last year (the same period of last year: 6,694 contracts). At the same time, we have also seen the social restructuring and the changes in the public’s logical thinking for making decisions brought by the pandemic, as well as the profound impacts it brought on the business and policies: firstly, people’s understanding and acceptance of pre-need planning services further enhanced, which makes it easier for the multi-channel promotion of contract products to achieve. During the Period, we opened the first flagship store on JD online shopping mall; secondly, the expectation of business institutions and governmental organizations for a stable supply has further increased, and we have achieved business cooperation with elderly care institutions, communities, the Red Cross, the aid station and retirement council, etc. on a number of occasions; thirdly, the content of and demand for services have further expanded, as the public and social institutions have diversified demands for our professional services such as hospice care and mourning therapy, for which we are researching and developing such products to satisfy the diversified and differentiated demands of customers.

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. During the Period, we focused on the innovation and environmental-friendliness of products. Through self-development and collaborated research with Shanghai Jiao Tong University and Tongji University respectively, which introduced big data artificial intelligence and fuzzy control technology, we continued to improve and enrich the product quality and functions of the "Jiesheng" smart and eco-friendly cremation equipment and exhaust gas purification treatment systems. On the other hand, as a part of our effort to expand the overseas market, we have further entered into sales cooperation agreements for several cremators, exhaust system and some ancillary equipment, which made "Jiesheng" go abroad to promote its products in the global market. The development of the Group will continue to focus on its target markets, as the Group will further invest in R&D through establishing a long-time stable collaborative relationship with universities and scientific research institutions, devote more resources to the marketing and promotion of our eco-friendly cremators, continue to improve production quality and service system construction, constantly optimize product costs and persistently adopt green and environmental initiatives, in order to maintain a leading position in terms of technology in the market.

In relation to the expansion of our cemetery and funeral business, the Group continued to expand its presence into key regions and key cities, seeking replicable models for rapid development by means of mergers and acquisitions of high-quality development as well as innovative drivers of mixed reform projects and cooperative projects. During the Period, the Group has completed the acquisition of the remaining 10% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), and the Group now has 100% equity interest in the project. The project is an important strategic presence in the Northeast region of the PRC, thus the Group will continue to enhance its all-round support to promote the overall business quality and competitiveness of the project. The Group has also completed the second capital injection 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 Yuanbaoshan"), after which the Group's shareholding in this project has reached 51%. The project is located at the juncture of Beijing and Zhangjiakou in Hebei, with Zhangjiakou and Northern Beijing region as the target market. The acquisition represents the first strategic presence of the Group in Hebei and surrounding areas of Beijing, as well as an important step in advancing the Group's strategic plans in the Beijing-Tianjin-Hebei Region. In addition, we have continuously explored the B2B business collaboration model, and successfully rolled out a couple of cooperative or service outsourcing projects. Furthermore, steady progress continues to be made on the Group's plan of expanding into other major provinces and blank areas across the country, and the Group will further enhance its cooperation with the government and governmental platforms, achieving the synergistic development of all areas with integrated resources of various business segments. As of now, 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, including our cemeteries and facilities under operation in major cities across 16 provinces, municipalities and autonomous regions in the PRC.

During the Period, 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 solidify their internal power, and seek innovation and reform, striving to provide the best quality products and services to our customers. Since 2021, the Group has introduced external professional consultancy forces to commence strategy and management reform, optimized the two-wheel drive organization construction with a customer and product orientation, established employee management and professional dual-channel ranking system, established the "top-class employee system", and enriched the award and incentive systems for employees. In addition, the Group introduced a scientific "Personal Business Commitment", which is a performance management system led by value targets, customer targets, management targets, social targets and staff targets, urging the team and the Group to form a strategic vision with common goals. During the pandemic, both employees and the teams have remained stable, and the Group has continuously introduced high-level personnel with international visions and modern management philosophy to enrich the fast-developing business footprints.

"Fu Shou Yuan Life Service Academy" acts as the Group's "talent cultivation planner, innovative management promoter, business culture disseminator and industry knowledge manager". Fu Shou Yuan Life Service Academy focused on the hot issues of industry development and policy theory analysis, combined the present situation of current industry and the Group's development, proactively created new online and offline blended teaching models, building the "Business College", "Industry College" and "Social College" of Fu Shou Yuan Life Service Academy. At the "Business College" level, it focused on participant training and linear training in order to promote business empowerment and effect permeability. At the "Industry College" level, it conducted the collaboration of co-organizing schools with China's industry schools, participated in the compilation of the education of funerary occupation teaching materials — "Funerary Sociology Studies", and participated in enacting business standard and skills competition, etc., establishing a close connection with China's Business Standard Committee and Identification and Guiding Center of Occupational Skills of Ministry of Civil Affairs. At the level of "Social College", it made in-depth research on the Life Caring Project and the research and development of the related curriculum to explore a new approach for the socialization and popularization of life education. In terms of international exchange, Fu Shou Yuan Life Service Academy regularly exchanged with International Funeral Association, Australasian Cemeteries and Crematoria Association, National Funeral

Directors Association, International Cemetery, Cremation and Funeral Association and other national funeral associations, hosted various online international themed networking sessions and explored peers' responses and thoughts under the pandemic with international experts. In terms of international school collaboration, the Academy together with Worsham College in the USA and National Funeral Directors Association University explored the introduction and implementation of embalming courses, funerary service courses and other skill certificates in order to enhance the professional abilities and international visions of mortuary workers in domestic market.

The Group continued to uphold our “people-oriented and culture-rooted” philosophy. We focused on understanding spiritual demands and paid additional attention to the exploration of humanity remembrance, public welfare, life education and other purposes of life service business. During the Qingming holiday, a total of 11,684 pieces of messages related to “Fu Shou Yuan” were recorded across the Internet. There is a general view that Fu Shou Yuan’s “Digitalized Cemeteries” (數字陵園), “Online Tomb Sweeping” (雲祭掃), “Online Memorial” (雲紀念) and digital collection innovative services are welcomed. The 4th Qingming Forum of Peking University, anatomical donation memorial activities, fighting COVID-19 voluntary works, charitable and caring events, life education philosophy dissemination and the stories of funerary practitioners were liked by netizens. In January of this year, Fu Shou Yuan released the premiere limited editions of the “Wu Mengchao’s Autograph English-Chinese Dictionary” (吳孟超親筆簽名英漢字典) as a digital collection and launched the “Fu Shou Yuan Qingming Festival Digital Cultural Collection” (福壽園清明節數字文化收藏品) with Shanghai Stamp, Coin and Card Exchange Corp. Ltd. during the Qingming holiday, representing the devotion of Fu Shou Yuan to the development and research on cultural and creative products as well as digital assets, its efforts of endowing life with the meaning of breaking through time and space and the continuation of spirit. In terms of theoretical research, our system concluded Fu Shou Yuan’s exploration of death care reform and published a practically innovative thesis in key core journals. In terms of red culture dissemination, in May 2022, the Humanities Memorial Park of Fu Shou Yuan was included in the Shanghai Red Resource Directory (First Batch). At the same time, the Humanities Memorial Museum of Shanghai Fu Shou Yuan co-organized the 2022 “Sages and Shanghai’s Urban Memory” (先賢與上海城市記憶) forum, using “Youth in Centennial Elegance” as the theme and interpreting the connection between Shanghai and the great spirit of the founding of the Communist Party in various perspectives. During the pandemic, Shanghai Fu Shou Yuan Public Welfare Development Foundation supported Hong Kong charitable organizations to fight against the pandemic, and participated hand in hand in the voluntary service platform of “Maritime Peacefulness Care” to donate anti-epidemic supplies to Shanghai elderly care, relief agency and other social welfare organizations, proactively commenced caring and anti-epidemic activities for the frontline mortuary workers. Staff members teamed up and fully engaged in anti-epidemic work and voluntary services. In addition, they participated in various kinds of

charitable events, took good care of autistic children, provided aid to western areas, etc., pushing the practice and innovative pathway of social responsibility and life service to a new stage of a more standardized and more scientific sustainable development.

In view of the above, although the Group was inevitably affected by the pandemic and our performance was temporarily impacted during the Period, our business has shown a rapid recovery trend since June, demonstrating innovation and development of various business segments continuously. During the Period, the total revenue of the Group recorded RMB906.4 million, representing a decrease of approximately 20.6% as compared to the same period of last year. Profit and comprehensive income attributable to the owners of the Company recorded RMB261.1 million, representing a decrease of approximately 28.9% as compared to the same period of last year.

REVENUE

During the Period, sporadic pandemic outbreaks were seen in many cities in the PRC and a couple of our cemeteries and funeral facilities were impacted to varying degrees, our revenue decreased by RMB235.2 million or 20.6% to RMB906.4 million from RMB1,141.6 million of the same period of last year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. The following table sets forth our revenue by segment for the Period:

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Burial services	727,553	80.3%	969,118	84.9%
Funeral services	164,460	18.1%	162,124	14.2%
Other services	22,317	2.5%	17,209	1.5%
Inter-segment elimination	(7,937)	(0.9%)	(6,831)	(0.6%)
Total	<u>906,393</u>	<u>100.0%</u>	<u>1,141,620</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 Period:

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	6,099	642,136	8,168	848,899
Public welfare plots and tomb relocation	5,201	14,565	2,919	26,218
	<u>11,300</u>	<u>656,701</u>	<u>11,087</u>	<u>875,117</u>
Other burial services		<u>70,852</u>		<u>94,001</u>
Total revenue from burial services	<u>11,300</u>	<u>727,553</u>	<u>11,087</u>	<u>969,118</u>

During the Period, in order to cut off the transmission chain as early as possible, many places across the country pressed the slow-forward button and pause button in a “dynamic zero-COVID policy”, the market demand for burial services were temporarily restrained. Revenue from sale of burial plots services for ordinary business purpose decreased by RMB206.8 million or 24.4% as compared to the same period of last year, and therein sales volume decreased by 2,069 or 25.3%, while ASP increased by 1.3%. During the Period, sale of public welfare plots and tomb relocation recorded RMB14.6 million, which related mainly to 1) tomb relocation and construction service to meet the market demand due to certain government’s plan to develop local infrastructure construction; and 2) public welfare plots services rendered to designated people.

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

	Six Months Ended			
	June 30, 2022			June 30, 2021
	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*	5,981	637,147	8,168	848,899
Cemeteries related to acquisitions/new construction	118	4,989	—	—
Total revenue from sale of burial plots services for ordinary business purpose	<u>6,099</u>	<u>642,136</u>	<u>8,168</u>	<u>848,899</u>

* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2021 to June 30, 2022.

During the Period, revenue from sale of burial plots services for ordinary business purpose in comparable cemeteries decreased by RMB211.8 million or 24.9% as compared to the same period of last year. Its sales volume decreased by 2,187 or 26.8% due to the resurgence of novel coronavirus pneumonia (COVID-19) (the “Pandemic”) in mainland China during the Period. Since mid-March, many cemeteries were suspended or restricted for varying duration in compliance with the measures implemented by the local government authorities to curb the outbreak of the Pandemic which resulted in temporary decrease of market demand and the sales volume reduced accordingly. However, from June, with the alleviation of the Pandemic and the gradual relaxation of the pandemic prevention policy, the market demand has seen to pick up quickly. The ASP increased by 2.5%, due to the combined effect of products mix, contributions from various cemeteries and the increase in their value, etc. Revenue from sale of burial plots services for ordinary business purpose in newly acquired or newly developed cemeteries increased by RMB5.0 million, mainly due to the contribution from Anhui Longmen acquired in August 2021. The ASP of burial plots sold for ordinary business purpose in newly acquired 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 newly acquired/ established and comparable funeral facilities during the Period:

	Six Months Ended			
	June 30, 2022			June 30, 2021
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	31,221	155,521	29,900	162,124
Facilities related to new acquisitions/new construction	<u>3,452</u>	<u>8,939</u>	<u>—</u>	<u>—</u>
Total revenue from funeral services	<u><u>34,673</u></u>	<u><u>164,460</u></u>	<u><u>29,900</u></u>	<u><u>162,124</u></u>

* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2021 to June 30, 2022.

During the Period, revenue from funeral services increased by RMB2.3 million or 1.4%. The volume of funeral services increased by 4,773 households or 16.0%, while ASP decreased by RMB679 or 12.5%, mainly because more basic funeral services were rendered with the establishment of the new facility and expansion of the new services of the comparable facilities during the Period and less high-priced value-added services were rendered for the time being under the restriction on crowd gathering from the local government authorities to curb the outbreak of the Pandemic.

Revenue from comparable funeral facilities and services decreased by RMB6.6 million or 4.1%. In particular, its volume of services increased by 1,321 households or 4.4%, while ASP decreased by approximately 8.1% as compared to the same period of last year because some of funeral facilities expanded cooperation with local government thanks to the well-known high-quality services and started to deliver basic farewell ceremony services during the Period. Revenue from new funeral facilities was mainly contributed by Linquan funeral facility constructed by the Group in 2021. ASP of new funeral facilities was lower than that of the comparable funeral facilities, mainly due to different funeral services mix i.e. Linquan funeral facility was primarily engaged in the provision of funeral catering services which recorded a lower ASP compared to other value-added services. After the COVID-19 was brought under control, with the resumption of provision of such value-added services, increased service items, improved service quality, and commencement of marketing activities, the Group's revenue from funeral services has much room to grow.

GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities under operation are strategically located in major cities across 16 provinces, municipalities and autonomous regions in the PRC. The following table sets forth a breakdown of revenue from burial services and funeral services by region during the Period:

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Shanghai	328,550	36.8%	494,600	43.7%
Anhui	91,533	10.3%	98,902	8.7%
Liaoning	74,224	8.4%	102,765	9.2%
Shandong	63,744	7.1%	50,499	4.5%
Jiangsu	57,795	6.5%	59,916	5.3%
Jiangxi	55,010	6.2%	62,660	5.5%
Henan	47,534	5.3%	58,693	5.2%
Chongqing	45,782	5.1%	48,407	4.3%
Heilongjiang	30,574	3.4%	53,440	4.7%
Fujian	27,157	3.0%	24,119	2.1%
Guizhou	25,783	2.9%	26,603	2.4%
Zhejiang	22,712	2.5%	22,459	2.0%
Gansu	8,023	0.9%	9,413	0.8%
Inner Mongolia	7,793	0.9%	8,346	0.7%
Guangxi	5,192	0.6%	10,179	0.9%
Hubei	607	0.1%	241	0.0%
Total	892,013	100.0%	1,131,242	100.0%

Due to resurgence of Pandemic in the Period (mainly from mid-March to May), less gathering of crowds in accordance with relevant pandemic prevention and control policy, many cemeteries and funeral services' business were temporarily suspended and market demand reduced for the time being, resulting in a decrease in revenue. In particular, Shanghai, Shenyang City of Liaoning province and Harbin City of Heilongjiang province where relatively large cemeteries are located were impacted significantly during the Period. Following the alleviation of the Pandemic and the relaxation of pandemic prevention and control measures from June, the deferred consumer demands in the cemetery market has seen a quick pick-up.

OTHER SERVICES

Revenue from other services for the Period mainly represented the revenue of approximately RMB15.4 million generated from our professional design services offered to cemeteries and funeral parlours throughout the nation, revenue from the sale of cremation machines and other related services of approximately RMB3.7 million, and the revenue of approximately RMB3.2 million generated from construction service of funeral parlours under the franchise agreements.

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 54.9% of total revenue for the Period (the same period of last year: 50.5%), decreased by RMB79.1 million or 13.7%. Due to the Pandemic resurgence, the demand for cemeteries and funeral services in the market experienced temporary decrease. During the Period, the Group has commenced further structural adjustment on resources with an emphasis on the continuous optimization of cost structure and the effort in cost reduction and efficiency enhancement which resulted in a decrease in operating expenditure. However, due to fixed cost (such as depreciation and amortization) incurrence, the decrease in operating expenditure was lower than that of the revenue.

The Group's staff costs include staff salaries, bonuses and benefits. During the Period, the staff costs decreased by RMB22.5 million or 9.7%. Such decrease was mainly attributable to the combined effect of various social security concessions granted to the Group and optimization of working structure and remuneration structure of staff during the Pandemic resurgence, partly offset by the increase in staff from newly acquired companies, such as Anhui Longmen, Heze Fuluyuan, etc..

The construction costs relate to the expenditures in building burial plot products (excluding stone materials). During the Period, the construction costs increased by RMB7.0 million or 15.9%, mainly due to the combined effects of (1) the construction cost of funeral parlours under a franchise agreement, (2) newly acquired or established companies' construction costs, and (3) the expenditure incurred on the existing projects inherited from prior year. The Group continued to assess the Pandemic impact and adjust the construction plan during the Period.

Consumed materials and goods relate to 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. During the Period, the consumed materials and goods decreased by approximately RMB21.3 million or 23.3%, mainly due to the decreased business volume.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Period, the marketing and sales channel costs decreased by RMB7.4 million or 31.3%. Such decrease was mainly attributable to the decrease in business activities of the market as a result of the outbreak of COVID-19, as well as the decrease in sales commission due to lower income.

Depreciation and amortization increased by RMB5.1 million or 7.1%, mainly due to the commencement of operation of certain new cemeteries and funeral facilities in the second half of last year as well as the newly acquired companies.

Other general operating expenditures decrease by RMB29.6 million or 32.6%, mainly because relevant expenditures did not incur due to reduced revenue and the Group launched in-depth cost control measures during the Pandemic.

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, our operating profit for the Period decreased by RMB156.1 million or 27.6% as compared to the same period of last year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Period:

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	391,996	53.9%	550,567	56.8%
Funeral services	21,936	13.3%	24,960	15.4%
Other services	(4,388)	(19.7%)	(10,637)	(61.8%)
Inter-segment elimination	(326)	4.1%	462	(6.8%)
Total	409,218	45.1%	565,352	49.5%

During the Period, the operating profit margin of burial services reduced to 53.9% from 56.8% in the same period of last year. The decline was mainly attributable to the effect of contribution structure, in particular, under the measures to curb the outbreak of the Pandemic, revenues from the full-fledged cemeteries such as cemeteries in Shanghai, Heilongjiang and Liaoning decreased while the developing cemeteries contributed more revenue, with lower profit margin.

During the Period, the funeral services were affected by the Pandemic resurgence and certain value-added services and products were unable to be provided in line with social restriction requirements, besides, some of funeral facilities expanded cooperation with

local government thanks to the well-known high-quality services and started to deliver basic farewell ceremony services, which led to a decrease in the operating profit margin of funeral services segment to 13.3%.

During the Period, other services segment recorded an operating loss of RMB4.4 million, mainly arising from the continued 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 Period consisted of interest expenses of RMB0 million on bank loans (the same period of last year: RMB0.6 million), interest expenses of RMB0.5 million (the same period of last year: RMB0.8 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities and other long-term liabilities of RMB1.6 million (the same period of last year: RMB1.2 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’ loan in accordance with 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 Period mainly include interest income, government grants received, exchange gains and losses, etc. Among which, interest income and gains from unlisted cash management products during the Period amounted to RMB22.0 million, representing a decrease of RMB6.8 million or 23.6% as compared to the same period of last 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 Period was 25.4% (the same period of last year: 24.8%). The effective corporate income tax rate approximates the standard tax rate of 25%.

During the Period, income tax expenses recorded RMB111.3 million, representing a decrease of RMB39.4 million or 26.1% as compared to the same period of last year, which can be attributable to the decrease in taxable income.

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As mentioned above, our profit and total comprehensive income attributable to owners of the Company for the Period amounted to RMB261.1 million, representing a decrease of RMB106.3 million or 28.9% as compared to the same period of last year.

CASH FLOW

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

	Six Months Ended	
	June 30, 2022	June 30, 2021
	(RMB'000)	(RMB'000)
Net cash generated from (used in)		
— operating activities	242,672*	494,154*
— investing activities	276,394*	(595,421)*
— financing activities	(234,328)	(147,909)
Total	<u>284,738</u>	<u>(249,176)</u>

* A classification made by the management does not comply with International Financial Reporting Standards, however, the management considers 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 unaudited financial statements amounted to RMB240.5 million (the same period of last year: RMB504.5 million) and the net cash used in investing activities as disclosed in the unaudited financial statements amounted to RMB278.5 million (the same period of last year: RMB605.8 million). During the Period, an amount of RMB2.1 million (the same period of last year: repayment received of RMB10.3 million) relating to the payment for cemetery land acquisition was here classified under the cash used in investing activities, instead of cash generated from operating activities.

We generated our cash from operating activities primarily from proceeds of our death care service businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, and other operating expenditures. Our net cash generated from operating activities amounted to RMB242.7 million for the Period, representing a decrease of RMB251.5 million or 50.9% as compared to the same period of last year, which was primarily due to the decrease in revenue during the Period, and more corporate income tax payment paid during the current Period in relation to the profit earned in the second half of prior year in accordance with tax payment mechanism.

Our net cash received from investing activities amounted to RMB276.4 million during the Period. It was primarily due to: (i) net amount of withdrawal of time deposits, entrusted loans and other financial assets of RMB383.8 million; (ii) withdrawal of investment in equity fund totalling RMB49.9 million; (iii) the interests and gains from unlisted cash management products received of RMB21.3 million; which were partially offset by: (iv) payment of RMB67.3 million for the acquisition of operating rights of subsidiaries, cemeteries and funeral parlors as well as other investments; (v) payment of loan to a third party in connection with acquisition of land of a cemetery project totaling RMB58.0 million; and (vi) 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 RMB48.5 million.

Our net cash used in financing activities amounted to RMB234.3 million during the Period. It was primarily due to: (i) final dividends for 2021 paid to shareholders of the Company of RMB108.9 million; (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB69.0 million; (iii) payment to purchase non-controlling interests of subsidiaries of RMB40.1 million; (iv) repayment of lease payment and other long-term liabilities of RMB14.3 million; and (v) repayment of loans to non-controlling shareholders of RMB2.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2022, we had bank balances and cash of RMB1,360.3 million (December 31, 2021: RMB1,075.6 million), time deposits of RMB47.3 million (December 31, 2021: RMB285.7 million) and unlisted cash management products of RMB564.6 million (December 31, 2021: RMB666.0 million). Such financial assets represent cash management products with relatively lower risk ratings, which are repayable on demand and have maturity dates shorter than six months, or are repayable upon notice of withdrawn by the Company at its discretion. Such assets are highly dispersed and are managed by certain state-owned banks, with expected annualized return rates ranging from 1.79% to 3.85%. To support our expansion strategy, we hold a relatively high level of cash. In order to moderately increase capital returns, under the premise of ensuring safety and liquidity, we have allocated a part of treasury fund to short-term cash management products. Such products are issued and managed by state-owned banks and have clearly-specified expected return rates, maturity dates or are immediately redeemable. Even though the principals and return rates of such products are in theory and as stipulated, determined by reference to the performance of the underlying assets, such as government debt instruments, treasury notes and corporate bonds with high credit ratings, and not guaranteed by the issuing banks, they are secured in substance considering the features and historical performance of such products and present situation of bank system in the PRC. We internally regard our treasury fund put in such cash management products as part of our cash balance, however, from the accounting point of view, they are classified as the financial assets at fair value through profit or loss. In the foreseeable future, we expect to fund our capital expenditure, working capital

and other capital requirements from the cash generated from our operations, bank borrowings, and other financing channels. The Board confirmed that the transactions in financial assets for the Period, on a standalone basis or aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

We had RMB0 million outstanding bank borrowings as at June 30, 2022.

In addition, we had RMB15.5 billion of comprehensive bank credit line as at June 30, 2022.

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as at June 30, 2022 was 0.4% (December 31, 2021: 0.5%). Our operation has been lightly leveraged because of our good cash generating capability from our operating activities. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not anticipate our gearing ratio will substantially increase considering the balance of bank and cash on hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The Group conducts its businesses in the PRC and its functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed the Group to foreign currency risk. As at June 30, 2022, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 96.1%, 2.3% and 1.6%, respectively, of the total amount of these assets. We believe the current level of financial assets, time deposits, bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management controls foreign currency risk by strictly managing the size of foreign currency risk exposure and closely observing the movement of foreign currency rates. We may, if necessary, hedge against foreign currency risk using financial instruments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no other material acquisitions or disposals of subsidiaries and affiliated companies of the Group during the Period.

In October 2021, the Group entered into an agreement to acquire equity interest in Zhuolu Yuanbaoshan. According to the agreement, we shall make four separate capital injection of RMB5 million, 20 million, 8 million and 30 million in sequence based on the business development and related conditions. In November 2021, we made the first capital injection and in June we completed the second one. As at June 30 2022, we have acquired 51% equity interest in Zhuolu Yuanbaoshan. Save as disclosed above, there was no other material acquisitions or disposals of subsidiaries and affiliated companies of the Group during the Period.

EMPLOYEE AND REMUNERATION POLICY

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. As of June 30, 2022, the trustee of the Restricted Share Incentive Scheme held 48,800,000 Shares purchased from the secondary market and the above restricted shares have not been granted to eligible participants.

As at June 30, 2022, we had 2,460 full-time employees (December 31, 2021: 2,464 full-time employees). We offer competitive packages and benefits to our staff. We also make contributions to social security insurance funds in accordance with applicable laws and regulations. Furthermore, we provide staff training and development programs and performance-based bonus to ensure that our employees are equipped with necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of acquisition of subsidiaries, land use rights, other investments, cemetery assets and property and equipment in a total amount of approximately RMB34.3 million as at June 30, 2022.

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.64 million sq.m. as at June 30, 2022 (December 31, 2021: approximately 2.54 million sq.m.), which is sufficient to satisfy the needs of the Group's sustainable operation in the long run. When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for construction of tombs, such as the areas in connection with business centres, office buildings, landscaping and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time.

CONTINGENT LIABILITIES

As disclosed in our previous announcements, one of our indirect wholly-owned subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. We had settled most of the lawsuits without substantial losses as at June 30, 2022 with five lawsuits remaining outstanding. To our best knowledge, RMB17.8 million was accrued and recognized in the interim financial report in order to settle the aforesaid five lawsuits. In August 2022, RMB17.5 million was paid and four of the five outstanding lawsuits were settled. In addition, a settlement agreement was reached among relevant parties whereby Wuyuan Wanshoushan Cemetery would pay RMB350,000.0 to settle the final remaining lawsuit.

EVENTS AFTER THE REPORTING PERIOD

Save for the disclosed settlement in Contingent Liabilities, there was no significant event that might affect the Group subsequent to the Period.

PROSPECTS

Looking ahead, we will continue to do our best in the death care service industry in China, leading the industry revolution and improving services quality by continuous innovation and paying 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, perfect our business chain, 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 service business, we will consolidate newly acquired businesses and raise their standards on 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.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK5.64 cents per Share for the six months ended June 30, 2022. The interim dividend will be paid to the Shareholders on Thursday, October 13, 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, September 27, 2022.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the transfer books and register of members of the Company will be closed from Friday, September 23, 2022 to Tuesday, September 27, 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the entitlement to the interim 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, September 22, 2022.

DIRECTORS’ SECURITIES TRANSACTIONS

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

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

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 throughout the Period.

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

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

REVIEW OF INTERIM 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 one 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, interim results, and the Group’s condensed consolidated financial statements for the Period.

PUBLICATION OF INTERIM RESULTS AND 2022 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fsygroup.com). The interim report for the six months ended June 30, 2022 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“Anhui Longmen”	Anhui Longmen Cultural Cemetery Co., Ltd* (安徽龍門文化陵園有限公司), a limited company established under the laws of the PRC and a wholly-owned subsidiary of the Company
“ASP”	average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Changchun Huaxia Cemetery”	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of the PRC
“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
“Company” or “Fu Shou Yuan”	Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands
“Director(s)”	the director(s) of the Company
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“ESG”	environment, social and governance
“Fu Shou Cloud”	Shanghai Fu Shou Yun Life Information Technology Co. Ltd.* (上海福壽雲生命信息科技有限公司), a limited company established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Group”, “our Group”, “us” or “we”	the Company and its subsidiaries
“Heze Fuluyuan”	Heze Fuluyuan Cemetery Management Co., Ltd.* (菏澤福祿源公墓管理有限公司), a limited company established under the laws of the PRC and a non-wholly owned subsidiary of the Company

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jinsha Fuze Cemetery”	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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Period”	the six months ended June 30, 2022
“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the company with effect from November 29, 2019
“Restricted Shares”	any Share(s) that may be offered by the Company to any selected participant pursuant to the Restricted Share Incentive Scheme
“RMB”	Renminbi yuan, the lawful currency of the PRC
“same period of last year”	the six months ended June 30, 2021
“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 Temshine Cemetery Group 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”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	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

“%” percent

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

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

Hong Kong, August 19, 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.