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Fu Shou Yuan International Group Limited

福壽園國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

2022 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the Year amounted to approximately RMB2,171.6 million, representing a decrease of approximately 6.6% when compared to that of Last Year.
- Profit and total comprehensive income attributable to owners of the Company for the Year amounted to approximately RMB658.6 million, representing a decrease of approximately 8.5% when compared to that of Last Year.
- Basic earnings per Share for the Year amounted to approximately RMB29.0 cents, representing a decrease of approximately 8.2% when compared to that of Last Year.
- The Board has recommended the payment of a final dividend of HK7.58 cents per Share for the Year.

The Board of Directors of Fu Shou Yuan International Group Limited is pleased to announce the audited consolidated financial results of the Group for the year ended December 31, 2022 together with the comparative figures for Last year as set out below. The consolidated financial results are audited by the external auditor and have been reviewed by the Audit Committee.

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

FOR THE YEAR ENDED DECEMBER 31, 2022

	<i>NOTES</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	4	2,171,626	2,325,848
Operating expenditures			
Staff costs		(463,624)	(469,616)
Construction costs		(123,266)	(167,358)
Consumed materials and goods		(162,065)	(177,538)
Outsourced service costs		(55,417)	(53,122)
Marketing and sales channel costs		(43,155)	(43,986)
Depreciation and amortisation		(155,953)	(146,734)
Other general operating expenditures		(153,616)	(197,643)
Inventory changes		17,035	28,448
Impairment losses under expected credit loss model, net of reversal		(1,238)	(3,821)
Profit from operations		1,030,327	1,094,478
Other income, gains and losses		74,293	103,580
Share of loss of a joint venture		(7,407)	(11,577)
Finance costs		(5,008)	(7,246)
Profit before taxation	5	1,092,205	1,179,235
Income tax expense	6	(281,476)	(289,591)
Profit and total comprehensive income for the Year		<u>810,729</u>	<u>889,644</u>
Profit and total comprehensive income for the Year attributable to:			
Owners of the Company		658,596	720,033
Non-controlling interests		152,133	169,611
		<u>810,729</u>	<u>889,644</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
— Basic	7	<u>29.0</u>	<u>31.6</u>
— Diluted	7	<u>29.0</u>	<u>31.6</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

	<i>NOTES</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current assets			
Property and equipment	8	571,861	582,636
Right-of-use assets		116,711	115,122
Investment property		6,509	6,509
Intangible assets		273,614	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 land as cemetery assets		29,117	27,454
Cemetery assets	10	1,930,650	1,937,662
Investment in an associate		750	5,750
Investments in a joint venture		132,960	190,249
Restricted deposits		81,394	69,379
Deferred tax assets	18	81,290	76,630
Other long-term assets		5,000	5,000
		<u>4,359,209</u>	<u>4,369,496</u>
Current assets			
Inventories	11	558,958	544,487
Trade and other receivables	12	423,116	159,624
Financial assets at fair value through profit or loss	14	487,883	965,973
Time deposits	15	33,467	285,677
Bank balances and cash	13	1,942,233	1,075,606
Contract assets		11,025	4,587
		<u>3,456,682</u>	<u>3,035,954</u>
Current liabilities			
Trade and other payables	16	699,530	761,339
Lease liabilities		25,239	17,276
Contract liabilities	17	96,456	72,508
Loans from non-controlling shareholders of subsidiaries		32,958	27,184
Income tax liabilities		179,938	202,880
		<u>1,034,121</u>	<u>1,081,187</u>
Net current assets		<u>2,422,561</u>	<u>1,954,767</u>
Total assets less current liabilities		<u>6,781,770</u>	<u>6,324,263</u>

	<i>NOTES</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current liabilities			
Lease liabilities		39,464	44,140
Contract liabilities	17	456,237	434,022
Deferred tax liabilities	18	134,215	137,068
Other long-term liabilities		37,850	36,713
		<u>667,766</u>	<u>651,943</u>
Net assets		<u>6,114,004</u>	<u>5,672,320</u>
Capital and reserves			
Share capital		142,148	142,179
Reserves		5,333,610	4,901,261
		<u>5,475,758</u>	<u>5,043,440</u>
Equity attributable to owners of the Company		5,475,758	5,043,440
Non-controlling interests		638,246	628,880
		<u>6,114,004</u>	<u>5,672,320</u>
Total equity		<u>6,114,004</u>	<u>5,672,320</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is an exempted company with limited liability incorporated on January 5, 2012 in the Cayman Islands under the Companies Law of the Cayman Islands, and its Shares have been listed on the Stock Exchange since December 19, 2013. The address of the registered office of the Company is Ocorian Trust (Cayman) Limited at Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and the address of the principal place of business in Hong Kong of the Company is Unit 709, 7/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong. The Group is mainly engaged in the provision of burial services, funeral services and other services.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The application of the Amendments to IFRSs in the Year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these 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. REVENUE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Burial services	1,748,898	1,907,676
Funeral services	359,427	331,970
Other services	87,629	104,669
Inter-segments elimination	<u>(24,328)</u>	<u>(18,467)</u>
	<u><u>2,171,626</u></u>	<u><u>2,325,848</u></u>

Geographical information:

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Shanghai	964,745	997,379
Anhui	193,146	213,450
Liaoning	152,228	191,793
Shandong	127,442	98,855
Jiangsu	101,940	111,443
Jiangxi	104,226	122,731
Henan	92,179	124,785
Chongqing	94,043	91,423
Heilongjiang	83,056	88,951
Fujian	53,302	48,821
Guizhou	53,041	52,387
Zhejiang	44,634	43,793
Gansu	13,447	16,224
Inner Mongolia	16,291	17,600
Guangxi	13,279	19,210
Hubei	<u>1,326</u>	<u>801</u>
	<u><u>2,108,325</u></u>	<u><u>2,239,646</u></u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Staff costs, including remuneration of the Directors:		
Salaries, wages, bonus and other benefits	425,967	437,887
Retirement benefits scheme contributions	<u>37,657</u>	<u>31,729</u>
Total staff costs	<u>463,624</u>	<u>469,616</u>
Depreciation of property and equipment	52,305	51,321
Depreciation of right-of-use assets	24,122	23,802
Amortization of intangible assets	15,299	9,318
Amortization of cemetery assets	<u>64,227</u>	<u>62,293</u>

6. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
PRC Enterprise Income Tax (“PRC EIT”)		
Current year	293,089	316,708
Over provision in prior years	(2,396)	(2,825)
Deferred tax	<u>(9,217)</u>	<u>(24,292)</u>
	<u>281,476</u>	<u>289,591</u>

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:

	2022	2021
Earnings		
Earnings for the purpose of basic and diluted earnings per share (<i>RMB'000</i>)	<u>658,596</u>	<u>720,033</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,271,451,099	2,278,490,319
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>94,842</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,271,451,099</u></u>	<u><u>2,278,585,161</u></u>

8. PROPERTY AND EQUIPMENT

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	359,215	369,669
Leasehold improvements	9,030	9,680
Furniture, fixtures and equipment	51,630	51,177
Motor vehicles	14,748	13,637
Construction in progress	<u>137,238</u>	<u>138,473</u>
	<u><u>571,861</u></u>	<u><u>582,636</u></u>

9. GOODWILL

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Haigang Fu Shou Yuan	9,595	9,595
Jinzhou Maoshan Anling	3,738	3,738
Henan Fu Shou Yuan	14,769	14,769
Chongqing Baitayuan	47,458	47,458
Meilin Century Cemetery	18,899	18,899
Guanlingshan Cultural Cemetery	47,245	47,245
Wuyuan Wanshoushan Cemetery	36,107	36,107
Anyang Tianshouyuan Cemetery	2,425	2,425
Changzhou Qifengshan Cemetery	87,425	87,425
Zaozhuang Shanting Xingtai	22,973	22,973
Luoyang Xianhe Cemetery	23,451	23,451
Temshine	23,433	23,433
Guangxi Huazuyuan Cemetery	22,756	22,756
Chaoyang Longshan Cemetery	12,903	12,903
Guizhou Tianyuanshan	19,123	19,123
Heling'er Anyou Cemetery	35,721	35,721
Hubei Tiansheng Cemetery	13,560	13,560
Jinsha Fuze	66,176	66,176
Harbin Mingxiyuan Cemetery	352,880	352,880
Anhui Longmen Cemetery	90,673	90,673
Heze Fuluyuan	101,226	96,237
Zhengzhou Anletang	1,113	1,113
Zhuolu Yuanbaoshan	37,594	—
	<u>1,091,243</u>	<u>1,048,660</u>

10. CEMETERY ASSETS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Land costs	1,286,573	1,316,177
Landscape facilities	283,612	257,028
Development costs	360,465	364,457
	<u>1,930,650</u>	<u>1,937,662</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, bridges, etc. 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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Burial plots	407,299	393,004
Tombstone	99,744	99,636
Others	51,915	51,847
	<u>558,958</u>	<u>544,487</u>

12. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	142,934	112,165
Less: Allowance for credit losses	<u>(5,059)</u>	<u>(3,821)</u>
	<u>137,875</u>	<u>108,344</u>
Other receivables comprise:		
Prepayments and rental deposits on properties	2,435	2,564
Other service receivables	6,000	14,000
Staff advances	1,212	2,962
Receivables from liquidation of a partnership (<i>Note</i>)	190,000	—
Deposits for new projects	6,773	7,658
Prepayments to suppliers	7,290	11,373
Interest receivables	263	413
Loans to third parties in connection with cemetery projects	60,192	2,152
Others	11,076	10,158
	<u>423,116</u>	<u>159,624</u>

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 Year, RMB110,000,000 has been received, and as at December 31, 2022, the outstanding and pledged receivables amounted to RMB190,000,000 which will be collectible in accordance with the relevant agreements.

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within one year	91,255	90,399
Over one year but less than two years	41,944	15,571
Over two years but less than three years	2,810	1,805
Over three years	1,866	569
	137,875	108,344

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:

	2022	2021
Interest rate per annum		
— RMB	0.20%–2.03%	0.30%–2.03%
— HK\$	0.01%	0.01%
— US\$	0.05%	0.05%

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
HK\$	21,478	15,093
US\$	1,075	797
	22,553	15,890

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Unlisted cash management products	487,883	665,973
Equity investment	<u>38,110</u>	<u>338,110</u>
	<u>525,993</u>	<u>1,004,083</u>

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

Details of the structured deposit and a number of cash management products at December 31, 2022 are as follows:

Bank	Name of products (note)	Currency	Amount <i>RMB'000</i>	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Tian Tian Li Pu Tian Tong Ying (天添利浦天同盈一號)	RMB	88,110	Redeemable on call after 1 work day on work day	2.14%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan (天添利普惠計劃)	RMB	32,720	Redeemable on call after 1 work day on work day	1.98%	N
Shanghai Pudong Development Bank	Ji Ji Xin (季季鑫四號)	RMB	150,000	Redeemable on call after 90 work days on work day	2.94%	N
Subtotal		RMB	<u>270,830</u>			
China Construction Bank	Hui Zhong Ri Sheng (惠眾日申周贖產品)	RMB	102,053	7 days cycle	2.52%	N
Subtotal		RMB	<u>102,053</u>			
Bank of Shanghai	Yi Jing Ling (易精靈)	RMB	50,000	Redeemable on call after 1 work day on work day	2.20%	N
Subtotal		RMB	<u>50,000</u>			
Shanghai Rural Commercial Bank	Ji Ji Xin Li (公司款季季鑫利 — 三個月定開)	RMB	35,000	10/01/2023	3.20%	N
Shanghai Rural Commercial Bank	Tian Tian Ying (天天盈C款)	RMB	30,000	Redeemable on call after 1 work day on work day	1.69%	N
Subtotal		RMB	<u>65,000</u>			
Total		RMB	<u>487,883</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 December 31, 2022.

15. TIME DEPOSITS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Time deposits	<u>33,467</u>	<u>285,677</u>

As at December 31, 2022, the Group had fixed-term deposits of USD4,800,000, equivalent to RMB33,467,000, in banks in the PRC with maturity of six months to one year and fixed interest rate ranging from 0.80% to 3.74% per annum (December 31, 2021: fixed interest rate ranging from 0.01% to 2.30% per annum).

16. TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	<u>308,552</u>	<u>281,752</u>
Other payables comprise:		
Advances and deposits from customers	21,961	32,054
Payables for acquisition of property and equipment	354	888
Salary, welfare and bonus payables	155,339	158,442
Other accrued expenses	55,381	52,575
Consideration payable for acquisition of subsidiaries	71,946	168,277
Consideration payable for acquisition of non-controlling interests	3,936	6,070
Reimbursed payables due to third parties	43,377	—
Others	<u>38,684</u>	<u>61,281</u>
	<u>699,530</u>	<u>761,339</u>

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	96,462	101,794
91–180 days	27,746	29,159
181–365 days	35,670	32,079
Over 365 days	148,674	118,720
	<u>308,552</u>	<u>281,752</u>

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

17. CONTRACT LIABILITIES

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cemetery maintenance services	509,523	467,804
Sales of pre-need contracts	43,170	38,726
	<u>552,693</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 estimates based on the predicted 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 contract liability is recognised when the pre-need contract is entered into and the payment is received, and is derecognised when the funeral service is offered.

18. DEFERRED TAXATION

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

	2022	2021
	RMB'000	RMB'000
Contract liabilities and loss allowance	61,444	54,670
Unused tax losses	17,817	19,939
Fair value adjustments	(132,186)	(135,047)
	(52,925)	(60,438)

19. DIVIDENDS

During the Year, the Company has declared and paid the final dividend of HK5.64 cents per Share for 2021 and the interim dividend of HK5.64 cents per share for 2022, amounting to approximately RMB230.2 million in total.

On March 17, 2023, a final dividend for 2022 of HK7.58 cents per Share was recommended by the Board, which is subject to the approval of shareholders at the forthcoming AGM.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement. The Company's auditor has reported on the consolidated financial statements of the Group for the year ended December 31, 2022. The auditor's report is unqualified and does not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

CHAIRMAN’S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the Group’s results of 2022 to all shareholders for review.

The year 2022 was an extraordinary year marked by a volatile international environment, the ongoing novel coronavirus pneumonia (COVID-19) pandemic (the “**Pandemic**”), intensifying geopolitical conflicts, high inflation, prominent food and energy issues and a challenging global economy. As for the domestic environment, with the settled clear direction, China’s economy received strong support and continued its recovery.

In such a complex and volatile environment, the Group still managed to upgrade itself from a comprehensive funeral service provider to a comprehensive life service operator by leveraging on its comprehensive corporate strength to keep abreast of the times, and actively expanded into the field of digital life service, thus maintaining its leading position in the industry by promoting the transformation of life service through technology empowerment, thereby rounding off the year 2022 with a satisfactory performance. During the Year, the Group recorded revenue of RMB2,171.6 million, representing a decrease of 6.6% compared with 2021. Net profit was RMB810.7 million, representing a decrease of 8.9% compared with 2021, of which profit and total comprehensive income attributable to owners was RMB658.6 million, representing a decrease of 8.5% compared with 2021. The Board proposes a final dividend of HK7.58 cents per Share for 2022 to the Shareholders. Together with the interim dividend of HK5.64 cents per Share distributed during the Year, the total dividend for the full year of 2022 is HK13.22 cents per Share, which is in line with the Group’s committed dividend policy to reward shareholders for the long-term trust and support.

In 2022, Fu Shou Yuan continued to respond to the national construction of “digital economy”, expanded the internet thinking and embedded digital technology in traditional businesses. The launch of the “Digital Cemeteries • Huixin Valley” project marked Fu Shou Yuan’s official entry into the field of digital life services. 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. Fu Shou Yuan always actively embraces digital transformation. In particular, it started its first attempt by introducing online tomb-sweeping service in 2001, adopted QR code technology for tombstones in 2014 and launched the “Fu Shou Cloud” platform in 2020 when the Pandemic started.

As a company committed to improve people’s livelihood, Fu Shou Yuan has been investing in innovation and development in recent years while actively fulfilling its corporate social responsibility. Through in-depth exchanges and cooperation with different parties from more sectors and industries, it aspires to bring the life service business from the back end to a broader front, thus extending the reach of personalised life services to the general public. To this end, starting from 2015, Fu Shou Yuan has taken a bold step forward by introducing the concept of “pre-need contract”, a well-developed pre-need planning business overseas, to the Chinese market for the first time. After nearly seven years of incubation and development, Fu Shou Yuan has implemented the “pre-need contract” service in more than ten provinces and nearly 40 cities across China, and has also developed a network tracing management model with specific responsibilities assigned to designated persons.

On September 29, 2022, Fu Shou Yuan held the first “Fu Shou Yuan Public Welfare Festival” with industry characteristics on the basis of various ongoing public welfare projects. Through this platform, the Shanghai Fu Shou Yuan Public Welfare Development Foundation launched the “Family Hospice Program” (家庭病末安寧計劃) and the “\$1,000 Posthumous Care” (千元身後事) public welfare project, thus realizing the vision of providing “hospice care service” and “free funeral service” for the benefit of the general public. The public welfare festival will be held successively in more than 40 cities covered by Fu Shou Yuan International Group to pool public welfare resources from different places and promote value creation from all sides, thereby building a heart-warming public welfare ecosystem for the whole society. The “Special Fund for Respecting Heroes” jointly established by the Shanghai Foundation for Supporting the Military and Families, the Shanghai Fu Shou Yuan Public Welfare Development Foundation and the Shanghai Yongfu Charity Foundation aims to specially care for the heroic models of troops stationed in Shanghai, veterans and other recipients of preferential treatment with practical public welfare projects, so that glory can be passed down forever, heroes can never walk alone, social preferential treatment projects can be better reflected, meritorious service honors and awards can be carried forward, and reverence service system can be optimized.

The Group actively sought the attention of the government, insisted on supporting public welfare, benefiting the general public, and promoting ecological civilization, prioritized education and construction of facilities, advocated a new style of funeral etiquette, and actively explored innovation in the area of high-quality funeral services to continuously meet the needs of the general public for “passing away in peace”. By upholding the idea of party construction and passing down the party spirit, Fu Shou Yuan will continue to establish an intelligent, efficient, environmentally friendly and heart-warming life service system to cultivate new culture in the industry.

On October 31, 2022, Fu Shou Yuan ranked among the top in terms of environmental, social and governance (“ESG”) rating with a Grade AA in the “2022 ESG Rating List of Wind Hong Kong Listed Companies”. As the representative of sustainable development values, ESG has become a topic of close concern to all sectors of society. Fu Shou Yuan

always combines ESG concept with business development, continuously shares ESG practice achievements with users, employees and society, further promotes the organic integration of ecological benefits, social benefits and economic benefits, and realizes high-quality sustainable development. In the future, Fu Shou Yuan will further enhance its governance, continuously implement the sustainable development strategy and practice the concept of sustainable development. In terms of environment, it will integrate the concept of green and environmental protection into every aspect of development, and build an ecological civilization development framework with lean operation, environmental cremation, green funeral services, ecological tombs, low-carbon worshipping and landscape cemetery model as the core, so as to promote low-carbon, low-energy consumption and efficient operation, and contribute to ecological symbiosis and green sustainable development of the industry. On the social front, it will continue to serve the people's livelihood, continuously innovate and optimize products, inherit the urban context, and work tirelessly to meet the people's needs for a better life.

In order to better enhance online memorial products, broaden international horizons and promote the application of online memorial technologies and services in life service industry, Fu Shou Yuan held an international thematic exchange meeting with Memories, an Australian company. Representatives of the two parties discussed and exchanged on the core advantages and product commonality of their respective products. The representatives of Memories believed that the digital twin products and metaverse commemorative products of the Group are unique and innovative, and hoped to explore the application of "Cloud Memorial" and other products in the field of life service together with Fu Shou Yuan in the future, so as to jointly promote the progress of the industry. The products of Memories emphasize on social attributes and have obvious advantages and unique characteristics in user experience and product experience, which are worth learning from. In the future, there will be huge market space for "Online Memorial" products and metaverse commemorative products, and it's believed that in markets of different countries, both parties can make good use of the advantages to jointly develop more commemorative products and seek more cooperation opportunities, so as to make commemorative products more humanistic.

Before the Winter Solstice, Fu Shou Yuan made use of modern internet technology to move funeral services to JD.com, presenting information on cemetery culture, purchase of funeral supplies, all-year-round tomb-sweeping service, and pre-need funeral packages (pre-need contracts) in a clear, open and transparent manner. The launch of Fu Shou Yuan Winter Solstice Service at JD.com is the epitome of changes in Chinese tomb-sweeping culture, and Chinese funeral and filial piety culture are changing, the traditional form of tomb-sweeping will be more adapted to modern lifestyle and better reflect the inheritance and continuation of family culture, which will also become an opportunity for people to strengthen family ties and promote communication among family members.

Looking back, the Group has been adhering faithfully to the original aspiration of “running a good enterprise and changing the entire industry” and actively pursuing breakthroughs in corporate development, product transformation and service improvement in order to provide services that are beautiful in the landscape, sophisticated in technology and rooted in culture. Going forward, Fu Shou Yuan will follow the development strategy from a funeral service provider to a comprehensive life service operator and extend Fu Shou Yuan from the earthly realm to the spiritual realm. The Group will also persist in providing and constantly creating high-quality life services for the general public, strive to become the participant and practitioner of funeral industry reform, follow the development direction of modern life services, stay true to its original mission and march forward with courage and diligence. We will persevere through all adversity and hold on to the last.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

As China advances into a moderately prosperous society in all respects and 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 is becoming 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 funeral services and achieving a "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 recent years, the level of China's urbanization has advanced steadily. According to the latest information published by the National Bureau of Statistics of China, as of the end of 2022, China's resident population in urban areas reached 920.71 million, representing an increase of 6.46 million compared to the end of 2021, while the urbanization rate reached 65.2%, representing an increase by 0.5 percentage point compared with the end of 2021. In the meantime, population aging has further intensified in China. The number of people aged 60 and above reached 280.04 million at the end of 2022, accounting for 19.8% of the total population. The number increased by 12.68 million compared to the end of 2021, representing a rise of 0.9 percentage point in its proportion to the overall population. During the 14th Five-Year Plan period, the population born in the second birth peak in the 1960s successively entered old age, resulting in a sharp increase in China's aging population. In addition, with the continuous advancement of funeral reforms and customs transforms, the cremation rate of remains in China continues to increase rapidly. In 2021, 5.966 million bodies were cremated nationwide, with the cremation rate reaching 58.8%, 3.1 percentage points higher than in 2020. Looking ahead, the acceleration of the new urbanization process, the aging population trend and the increased cremation rate of remains will continuously give rise to a massive demand for death care services in the market.

Despite the significant impact on China's consumer market and the operations of service companies caused by the Pandemic in 2022, the long-term positive fundamentals of consumer development remained unchanged. With the optimal implementation of the pandemic prevention and control policies and the orderly recovery of the consumption scene, the economic activeness of the service industry continued to rise, and the consumer market continued to recover and improve. In 2022, the disposable income per capita of urban residents was RMB49,283, representing a nominal growth of 3.9% and an actual growth of 1.9% compared to 2021. In addition, the trend of consumption upgrading in China has not changed, the residents' demand for quality continues to increase, the concept of green and environmental protection has become more popular, and the desire for service consumption remains strong. As a warm funeral service, while satisfying the basic funeral service needs, we will also meet the growing diversified and differentiated service requirements of the public with high quality, multi-level service content and more convenient service scenarios to reflect the humanistic care and emotional comfort for the deceased and the families of the deceased.

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 optimize 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. In October 2022, the State Council printed and distributed the Notice of the Key Task Division Plan for the 10th National Video and Telephone Conference on Deepening the Reform of “Decentralization, Regulation and Service” (《第十次全國深化「放管服」改革電視電話會議重點任務分工方案的通知》), which specifies and implements each “Decentralization-Control-Service” measure. 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 of 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. “To use the scientific ways of thinking and approach to give the deceased dignity, and use modern technology to enhance death care with more humane and high-end services” will be the future development direction of the death care industry.

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 acceleration of China's population aging, 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 Year, 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, when the Pandemic has spread to many provinces in the PRC, with the service industry and consuming market taking a big hit. However, as the implementation of Pandemic prevention policies were optimized and the policies to promote consumption began to take effect, the service industry and the consuming market have been on a track of resumption. In 2022, the country's GDP reached RMB121,020.7 billion, representing a year-on-year increase of 3.0% on constant price basis, and the overall economy is presenting a stable and resuming trend and is expected to continue rebound growth in 2023.

During the Year, certain cemeteries and death care service facilities of the Group are located in cities affected by the Pandemic and have implemented different degrees of pandemic prevention policies, including stationary management, as a result of which the regular operating activities of death care services have been restricted to different degrees. 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, our "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 extend the strategy from China's leading funeral service provider to China's leading funeral and life technology service provider, the design and construction of our burial facilities have also made new breakthroughs via concept exploration and technological innovation, which includes the iteration and upgrades of existing cemetery products, 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").

On the one hand, we continued to explore the local culture and integrate our regional culture into the design of our products across the country to enrich the cultural thickness of our products and display the cultural charm of our products. In our cemetery in Henan Province, we have planned and built thematic areas, which manifest the culture of the Central Plains across the board from the implantation of cultural aspects to the design of individual products, with rich cultural connotations. On the other hand, we have made fruitful design exploration in the three-dimensional space of our products. In our cemetery in Shanghai, the thematic areas we developed have realized a breakthrough of our products from two-dimensional space to three-dimensional space. In our cemeteries in Liaoning and Heilongjiang provinces, we have planned thematic areas to maximize the value of spatial resources through the vertical integration of land resources. In addition to iterations and upgrades of existing burial products, we further extended the definitions of our products from mere tombstone and burial place to a well-rounded consumer environment with the integration of settings, services and experience. We have accordingly developed our specialized design of ceremony burial space 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. In addition, empowered by digital facilities, the Huixin Valley Project in Shanghai Cemetery introduced a new concept of next generation cemetery products, taking a solid step to develop our contemporary cemetery of humanistic memorial into digital life park of the future. The park did not only increase 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 various technologies, including intelligent interactive screens, digitalized Nine Ceremonies and other intelligent tomb-sweeping services as well as the digital backup of online cemetery, "Huixin Valley" is preliminarily equipped to enter the "Metaverse". Leveraging on the integration of contemporary landscape and the new concept of life services, and the industry-appropriate and contemporary innovation, "Huixin Valley" stands out from the rest of the world and has been awarded the IDA International Design Award 2022.

During the Year, Temshine, a wholly-owned subsidiary of the Group, gradually implemented the EPC model across the Group, which, through experimentation and analysis for a time, 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 services 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 contents 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. We adhere to the service concept of “a new look for the remains”, and continued to promote services regarding the remains, innovative services and novel items as we enhance technological 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 Pandemic prevention and control during the Year, we accelerated the R&D and market validation of our online products on the internet. Steered by our digitization strategy, firstly, the iterative computing of our Cloud Memorial online service platform opened up the SaaS backend platform, which satisfied the personalized management needs of each cemetery and enhanced the data usage. The number of customers using the service platform for the Year hit a record high of over 1.5 million; secondly, the digitalized funeral products have been enhanced to complete the standard burial rituals process and enrich the content use template and operation automation system, which can provide customers with a perceptible, empathetic and expressive online memorial platform for attending and mourning when their relatives are unable to arrive at the funeral for various reasons; thirdly, we continued to optimize and improve cloud memorial services by completing the transformation from online tomb-sweeping to online memorial, with the iterative computing of the service platform, integrating multiple sectors such as online tomb-sweeping, online photo album, online obituary, 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. In addition, by combining traditional culture and modern ceremony empowered with technology, we effectively pushed forward the transition of funeral and mourning rituals from a traditional material level to a deeper spiritual level; fourthly, in response to the impact of the Pandemic, the update and iterative computing of Online Wake provided customers

with an online wake solution, focusing on solving problems such as relatives not being able to get to the funeral and the scarcity of offline memorial resources. The combination of traditional and modern technology has effectively enhanced the engagement of relatives and the convenience of use. Furthermore, Shanghai Fushouyun Life Information Technology Co. Ltd.* (上海福壽雲生命信息科技有限公司), a wholly-owned subsidiary of the Group, was invited to join the Shanghai AI Industry Association as the first member of the association from the funeral industry in October 2022.

As an important strategic pivot of the Group, pre-need contract services help the Group to lock in customers earlier and bring 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 resurgence of the Pandemic during the Year has brought various challenges to the pre-need contract business, it still reached a new high with a total of 16,759 signed contracts in 2022, representing an increase of 21.8% over Last Year (2021: 13,764 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 businesses and policies: firstly, people's understanding and acceptance of pre-need planning services have been further enhanced, which makes it easier for the multi-channel promotion of contract products. We also 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 such products to satisfy the diversified and differentiated demands of customers. In addition, the pre-need contract service system could provide prompt and high quality services to our customers in all circumstances, which is highly regarded by our customers. The supply capacity of the entire service system has also been further validated and optimised. We will integrate more funeral service providers through the export of our business model to create a larger and denser service coverage network, so as to serve the public more quickly and extensively.

The Group's eco-friendly cremation machine business integrates R&D, design, in-house production, comprehensive support and after-sales service to manufacture smart and eco-friendly cremation equipment and exhaust gas purification treatment systems. During the Year, we focused on the innovation and environment protection 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. We achieved key technological breakthroughs and obtained 16 utility model patents. On the other hand, as a part of our effort to expand the overseas market, we have further entered into sales cooperation agreements with distributors for cremators, exhaust system and certain ancillary equipment during the Year, and successfully delivered eight sets of eco-friendly cremators to overseas customers, which made “Jiesheng” go abroad to promote the products in the global market. The Group will continue to keep a close eye on the market, focusing on its target markets in line with growing demands, as the Group further invests in R&D through devoting more resources to the marketing and promotion of our eco-friendly cremators, in order to continue to improve production quality and service system construction, constantly optimize product costs and increase market share.

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 Year, 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. As the project is an important strategic presence in the Northeast region of the PRC, 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 the amount of RMB20 million in 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 entered into a strategic cooperation agreement with the Civil Affairs Bureau of Wenshan Zhuang and Miao Autonomous Prefecture in Yunnan. This cooperation provides the Group a strong position in terms of market services with extensive geographical advantage in Yunnan, allowing us to accelerate our plan to deepen our presence in major provinces in the southwest region. 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 Year, we continued to strengthen team building, improve operational structure, advance the standardization of business processes and enhance systematic construction. We will continue to enhance our comprehensive budget management and internal control and promote the optimization of financial structure. Employees are our most valuable resource. Adhering to Fu Shou Yuan's business philosophy, our employees endeavor to enhance personal skills and develop international exposure, 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 Performance Commitment Plan", which is a performance management system driven by value targets, customer targets, management targets, social targets and staff targets, promoting the team and the Group to develop a strategic vision with shared 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 enlarge the fast-developing business footprints.

"Fu Shou Yuan Life Service Academy" acts as the Group's "industry culture leader, industry talent cultivator, industry exchange promoter, and industry culture innovator". Focusing on industry development hotspots and policy theory research, Fu Shou Yuan Life Service Academy proactively created a new teaching mode combining online and offline, 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 joined the National Civil Affairs Vocational Education Teaching Steering Committee, the National Funeral Standardization Technical Committee, the Judging Committee and the Expert Committee, and participated in projects such as the preparation of industry teaching materials, project studies, case shortlisting and the establishment of training rooms in tertiary institutions. It also conducted the collaboration of co-organizing schools with China's industry schools, and the formulation of business standard and the organization of skills competition, etc. With the establishment of the Liji College of Further Education (禮濟進修學院), it will be able to nurture and incubate talents from within and outside the industry in the future by providing academic education. 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 has established amicable relationships with numerous international funeral industry associations and institutions, such as International Funeral Association (FIAT-IFTA), International Cemetery, Cremation and Funeral Association (ICCFA), National Funeral Directors Association (NFDA), Australasian Cemeteries and

Crematoria Association (ACCA), Australian Funeral Directors Association (AFDA), Latin American Association of Cemeteries and Funeral Services (ALPAR), Sindicato de Cemitérios e Crematórios Particulares do Brasil (SINCEP), Funeral Service Association of Canada (FSAC), Mongolian Funeral Association, Philippine Mortuary Association, Singapore Funeral Association, and Funeral Culture Study Society of Japan. It held various online international-themed networking sessions for regular exchange, where the associations discussed together the hot and difficult issues of the industry development covering various topics, such as posthumous care, consumer psychology in the post-epidemic era, service innovation, talent recruitment, cross-border marketing, internet memorial and socialization, sustainable development, digital estate processing and business model innovation of the funeral industry, to explore solutions to improve the quality of life service business in the post-epidemic era. In terms of international exchange and communication, we took the initiative to “go global” and organized to attend the International Convention & Expo for Funeral Industry (國際殯葬行業年會暨博覽會) in the US and Australia. By adhering to the strategic policy of “going global and bringing in”, we spread the image of the Chinese industry in line with the strategic direction of internationalization while keeping up with international standards. In terms of “bringing in”, we have reached a cooperation intention with a U.S. supplier for product introduction and anti-corruption training, as well as a number of international product and service providers for product innovation. In terms of international school collaboration, we together with Worsham College in the USA and National Funeral Directors Association University achieved the introduction and implementation of embalming courses, ceremony planner courses and other skill certificates as well as talent training partnership programmes in order to enhance the professional abilities and international visions of mortuary workers.

The Group continued to uphold our “people-oriented and culture-rooted” philosophy. Abiding by the development strategy of extending Fu Shou Yuan from the earthly realm to the spiritual realm, we promoted the transformation of life services from material level to spiritual level and provided services to promote Chinese family culture. During the Year, there were about approximately 47,000 media reports related to the Group and the daily average value of Baidu information index reached 13,000, representing a year-on-year increase of 90%. The public generally approved of the transformation of Fu Shou Yuan from a funeral service provider to an integrated life service operator, promoting innovative spiritual services such as “online tomb-sweeping” (雲祭掃), “online memorial” (雲紀念), digital cemetery, digital collection, etc. Humanistic memories were valued, and charitable actions, the dissemination of life education philosophy and the stories of funerary practitioners were liked by netizens. In January 2022, 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 festival, 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 May, the

Humanities Memorial Park of Fu Shou Yuan was included in the Shanghai Red Resource Directory (First Batch). In June, the Humanities Memorial Museum of Shanghai Fu Shou Yuan co-organized the “Sages and Shanghai’s Urban Memory” (先賢與上海城市記憶) forum, interpreting the connection between Shanghai and the great spirit of the founding of the Communist Party in various perspectives. In September, the Group held the first Fu Shou Yuan Public Welfare Festival with industry-specific features in conjunction with its ongoing public welfare projects. Fu Shou Yuan launched its first public welfare IP, “You Fu Xiang” (有福相), and initiated two public welfare projects, “Family Hospice Program” (家庭病末安寧計劃) and “\$1,000 Posthumous Care” (千元身後事) in the festival. In addition, we formed public welfare partnerships with numerous institutions to unite a wider range of social organizations, families and individuals to build a warm public welfare ecosystem for the whole society. Fu Shou Yuan’s performance in public welfare and active social responsibility have been widely recognized, including the “Top 10 Public Welfare Projects of the Year” from the Shanghai Public Welfare Selection, the “Poverty Alleviation Model of the Year Award” from the China Charity Festival and the “Top 10 Influential Public Welfare Projects of the Year” from the 5th Social Responsibility Conference.

In view of the above, although the Group was inevitably affected by the Pandemic and our performance was temporarily impacted during the Year, our business has shown a rapid recovery trend after the Pandemic and following the optimization of prevention and control policy, demonstrating innovation and development of various business segments continuously. During the Year, the total revenue of the Group recorded RMB2,171.6 million, representing a decrease of approximately 6.6% as compared to Last Year. Profit and comprehensive income attributable to the owners of the Company recorded RMB658.6 million, representing a decrease of approximately 8.5% as compared to Last Year.

REVENUE

During most time of the Year, 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 RMB154.2 million or 6.6% to RMB2,171.6 million from RMB2,325.8 million of Last Year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. The following table sets forth our revenue by segment for the Year:

	2022		2021	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Burial services	1,748,898	80.5%	1,907,676	82.0%
Funeral services	359,427	16.6%	331,970	14.3%
Other services	87,629	4.0%	104,669	4.5%
Inter-segment elimination	(24,328)	(1.1%)	(18,467)	(0.8%)
Total	2,171,626	100.0%	2,325,848	100.0%

BURIAL SERVICES

The following table sets forth the breakdown of our revenue from burial services, including revenue from the sale of burial plots services and other burial services, for the Year:

	2022		2021	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	13,254	1,563,023	15,129	1,676,145
Public welfare plots and tomb relocation	8,868	25,480	9,547	50,279
	<u>22,122</u>	<u>1,588,503</u>	<u>24,676</u>	<u>1,726,424</u>
Other burial services		<u>160,395</u>		<u>181,252</u>
Total revenue from burial services	<u>22,122</u>	<u>1,748,898</u>	<u>24,676</u>	<u>1,907,676</u>

During the Year, 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 due to the restricted social gathering policy. Revenue from sale of burial plots services for ordinary business purpose decreased by RMB113.1 million or 6.7% as compared to that of Last Year, and therein sales volume decreased by 1,875 or 12.4%, while ASP increased by 6.4%. During the Year, sale of public welfare plots and tomb relocation recorded RMB25.5 million, which related mainly to 1) the provision of tomb relocation and construction services to meet the market demand due to certain governments’ plan to develop local area and infrastructure construction; and 2) public welfare plots services rendered to the 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 Year:

	2022		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*	12,986	1,550,863	15,053	1,673,111
Cemeteries related to acquisitions/new construction	268	12,160	76	3,034
Total revenue from sale of burial plots services for ordinary business purpose	13,254	1,563,023	15,129	1,676,145

* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2021 to December 31, 2022.

During the Year, revenue from sale of burial plots services for ordinary business purpose in comparable cemeteries decreased by RMB122.2 million or 7.3% as compared to that of Last Year. Its sales volume decreased by 2,067 or 13.7% due to the resurgence of the Pandemic in mainland China. During the Year, especially during the Second Quarter and the Fourth quarter, many cemeteries' operation and business performance were impacted with the temporary reduction in sales volume due to different levels of enhanced pandemic prevention measures and policies. However, with the alleviation of the Pandemic and the gradual relaxation of the pandemic prevention policy, as well as the increased brand recognition and product differentiation the market demand has seen to rebound quickly. The ASP increased by 7.4%, due to the combined effect of products mix and contributions from various cemeteries. Revenue from sale of burial plots services for ordinary business purpose in newly acquired or newly developed cemeteries increased by RMB9.1 million, mainly due to the full year impact of 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 economic return to 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 Year:

	2022		2021	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	65,393	338,917	60,959	325,523
Facilities related to new acquisitions/new construction	7,781	20,510	3,323	6,447
Total revenue from funeral services	73,174	359,427	64,282	331,970

* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2021 to December 31, 2022.

During the Year, revenue from funeral services increased by RMB27.5 million or 8.3%. The volume of funeral services increased by 8,892 households or 13.8%, while ASP decreased by RMB252 or 4.9%, 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 Year and fewer high-priced value-added services were rendered due to strict funeral attendee limits from the local government authorities to curb the outbreak of the Pandemic.

Revenue from comparable funeral facilities and services increased by RMB13.4 million or 4.1%. In particular, its volume of services increased by 4,434 households or 7.3%, while ASP decreased by approximately 3.0% as compared to that 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 Year. Revenue from new funeral facilities was mainly contributed by Linquan Jiaheyuan Funeral Facility Co., Ltd.* (臨泉駕鶴園殯儀館有限公司) (“**Linquan Funeral Facility**”) constructed and operated by the Group in the middle of 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 basic services which recorded a lower ASP compared to other value-added services. After the Pandemic 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 Year:

	2022		2021	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Shanghai	964,745	45.8%	997,379	44.5%
Anhui	193,146	9.2%	213,450	9.5%
Liaoning	152,228	7.2%	191,793	8.5%
Shandong	127,442	6.0%	98,855	4.4%
Jiangsu	101,940	4.8%	111,443	5.0%
Jiangxi	104,226	4.9%	122,731	5.5%
Henan	92,179	4.4%	124,785	5.6%
Chongqing	94,043	4.5%	91,423	4.1%
Heilongjiang	83,056	4.0%	88,951	4.0%
Fujian	53,302	2.5%	48,821	2.2%
Guizhou	53,041	2.5%	52,387	2.3%
Zhejiang	44,634	2.1%	43,793	2.0%
Gansu	13,447	0.6%	16,224	0.7%
Inner Mongolia	16,291	0.8%	17,600	0.8%
Guangxi	13,279	0.6%	19,210	0.9%
Hubei	1,326	0.1%	801	0.0%
Total	2,108,325	100.0%	2,239,646	100.0%

Due to resurgence of Pandemic in the Year (mainly from mid-March to May and during the Fourth quarter), 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, Liaoning province, Heilongjiang province and Heinan province where relatively large scale cemeteries are located were impacted during the Year. Following the alleviation of the Pandemic and the relaxation of pandemic prevention and control measures from December, the deferred consumer demands in the cemetery market has seen a rapid pick-up. Revenue and sales volume from one of our Shandong province has grown up on the prior year mainly due to the combined effect of continued investment in the cemetery's environment, implantation of culture over the years and customers more receptive to our differentiated products and services.

OTHER SERVICES

Revenue from other services for the Year mainly represented the revenue of approximately RMB31.7 million generated from our professional design services offered to cemeteries and funeral parlours throughout the nation, the revenue of approximately RMB19.0 million from the EPC service, revenue from the sale of cremation machines and other related services of approximately RMB30.1 million, and the revenue of approximately RMB4.7 million generated from construction service of funeral parlours under the franchise agreements.

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 52.6% of total revenue for the Year (Last Year : 52.9%), decreased by RMB90.1 million or 7.3%. During most time of the Year, due to the Pandemic resurgence, the demand for cemeteries and funeral services in the market experienced temporary decrease. During the Year, 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.

The Group's staff costs include staff salaries, bonuses and benefits. During the Year, the staff costs decreased by RMB6.0 million or 1.3%. Such decrease was mainly attributable to the combined effect of optimization of working structure and remuneration structure of staff during the Pandemic resurgence, partly offset by the increase of staff from full year operation of newly acquired or constructed companies, such as Anhui Longmen and Linquan Funeral Facility, and the increase in the social security insurance premium along with the adjustment of the contribution base.

The construction costs relate to the expenditure in building burial plot products (excluding stone materials) and the construction cost of funeral parlours under franchise agreements. During the Year, the construction costs decreased by RMB44.1 million or 26.3%, mainly due to the combined effects of (1) the construction cost of funeral parlours under franchise agreements decreased by RMB35.4 million due to fewer related services rendered, (2) the internal EPC services reduced the construction costs from outside companies, and (3) the Group continued to assess the Pandemic impact and adjust the construction plan during the Year, partly offset by (1) newly acquired or established companies' construction costs, and (2) the expenditure incurred on the existing projects inherited from prior years.

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 Year, the consumed materials and goods decreased by approximately RMB15.5 million or 8.7%, mainly due to the decrease in business activities as a result of the outbreak of the Pandemic.

Marketing and sales channel costs mainly include advertising costs, marketing expenses, and sales commission. During the Year, the marketing and sales channel costs decreased by RMB0.8 million or 1.9%. Such decrease was mainly attributable to the combined effect of reduced sales volume due to the Pandemic's impact and different sales mix compared to that of Last Year.

Depreciation and amortization increased by RMB9.2 million or 6.3%, 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 decreased by RMB44.0 million or 22.3%, mainly in line with the reduction in sales volume and revenue as well as the 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 Year decreased by RMB64.2 million or 5.9% compared to Last Year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Year:

	2022		2021	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	986,017	56.4%	1,058,903	55.5%
Funeral services	48,357	13.5%	49,596	14.9%
Other services	93	0.1%	(18,240)	(17.4%)
Inter-segment elimination	(4,140)	17.0%	4,219	(22.8%)
Total	1,030,327	47.4%	1,094,478	47.1%

During the Year, the operating profit margin of burial services increased to 56.4% from 55.5% of Last Year. The increase was mainly because cemeteries in Shanghai have seen a rapid pick up after the Pandemic and accounted for more contribution to burial services segment than the prior year.

During the Year, the operating profit margin of funeral services decreased to 13.5% from 14.9% of Last Year. The decrease was mainly because 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 during the Year.

During the Year, other services segment recorded an operating profit of RMB0.1 million, mainly arising from the construction and design services, partly offset by 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 Year consisted of interest expenses of RMB0 on bank loans (Last Year: RMB1.8 million), interest expenses of RMB1.1 million (Last Year: RMB1.5 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities and other long-term liabilities of RMB3.9 million (Last Year: RMB4.0 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.

The Directors are of the view that the loan, being a form of financial assistance (as defined under the Listing Rules), was provided by non-controlling shareholders of the subsidiary for our benefit on normal commercial terms where no security over the Group’s assets was granted in respect of the loan. Accordingly, the loan was exempted from reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.90 of the Listing Rules.

OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses for the Year mainly include interest income, government grants received, exchange gains and losses, income from management service and consulting service, donations and etc. Among which, interest income and gains from unlisted cash management products during the Year amounted to RMB44.3 million, representing an increase of RMB1.5 million or 3.4% as compared to Last Year. Government subsidies for the Year were approximately RMB26.6 million.

INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries are subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Year was 25.8% (Last Year: 24.6%). The effective corporate income tax rate approximates the standard tax rate of 25%.

During the Year, income tax expenses recorded RMB281.5 million, representing a decrease of RMB8.1 million or 2.8% as compared to that of Last Year, which is mainly 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 Year amounted to RMB658.6 million, representing a decrease of RMB61.4 million or 8.5% as compared to Last Year.

CASH FLOW

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

	2022 (RMB'000)	2021 (RMB'000)
Net cash generated from (used in)		
— operating activities	868,255*	1,034,115*
— investing activities	397,913*	(690,046)*
— financing activities	<u>(399,541)</u>	<u>(502,485)</u>
Total	<u>866,627</u>	<u>(158,416)</u>

* A classification made by management does not comply with International Financial Reporting Standards, however, 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 audited financial statements amounted to RMB852.9 million (Last Year: RMB992.4 million) and the net cash received from investing activities as disclosed in the audited financial statements amounted to RMB413.2 million (Last Year: net cash used of RMB648.3 million). During the Year, an amount of RMB15.3 million (Last Year: RMB41.7 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 RMB868.3 million for the Year, representing a decrease of RMB165.9 million or 16.0% as compared to that of Last Year, which was primarily due to the decrease in revenue during the Year, and more corporate income tax payment paid during the Year 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 RMB397.9 million during the Year. It was primarily due to: (i) net amount of withdrawal of time deposits, entrusted loans and other financial assets of RMB539.5 million; (ii) withdrawal of investment in a joint venture totalling RMB49.9 million; (iii) the interests and gains from unlisted cash management products received of RMB45.3 million, which were partially offset by: (iv) payment of RMB95.7 million for building new burial and funeral facilities and capital expenditures for upgrades and maintenance in other cemeteries and funeral facilities; (v) payment of RMB82.1 million for the acquisition of operating rights of subsidiaries, cemeteries and funeral parlors as well as other investments and (vi) loan to a third party in connection with the acquisition of land of a cemetery project totaling RMB58.0 million.

Our net cash used in financing activities amounted to RMB399.5 million during the Year. It was primarily due to: (i) final dividends for 2021 and interim dividends for 2022 paid to shareholders of the Company of RMB230.2 million; (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB100.6 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 RMB26.1 million; and (v) repayment of loans to non-controlling shareholders of RMB4.4 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2022, we had bank balances and cash of RMB1,942.2 million (December 31, 2021: RMB1,075.6 million), time deposits of RMB33.5 million (December 31, 2021: RMB285.7 million) and unlisted cash management products of RMB487.9 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 withdrawal 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 1.69% to 3.20%. 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 Year, whether on a standalone basis or aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

As at December 31, 2022, we did not have any outstanding bank borrowings.

In addition, we had RMB15.5 billion of comprehensive bank credit line as at December 31, 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 December 31, 2022 was 0.5% (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 December 31, 2022, the amount denominated in RMB, HK\$ and US\$ under the financial assets, time deposits, bank balances and cash accounted for 97.7%, 0.9% and 1.4%, respectively, of the total amount of these assets. We believe the current level of financial assets, time deposits, bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management controls foreign currency risk by strictly managing the size of foreign currency risk exposure and closely observing the movement of foreign currency rates. We may, if necessary, hedge against foreign currency risk using financial instruments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 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 2022 we completed the second phase of capital injection. As at December 31, 2022, we had 51% equity interest in Zhuolu Yuanbaoshan.

Save as disclosed above, there were no other material acquisitions or disposals of subsidiaries and affiliated companies of the Group during the Year.

SIGNIFICANT INVESTMENTS

As at December 31, 2022, the Group did not hold any significant investments (December 31, 2021: Nil).

CHARGES ON ASSETS

As at December 31, 2022, the Group did not have any charges over assets (December 31, 2021: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at December 31, the Group has no specific plans for any material investments or capital assets.

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 December 31, 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 2022, we had 2,401 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 RMB25.4 million as at December 31, 2022.

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.62 million sq.m. as at December 31, 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 at December 31, 2022, we had no contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

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

PROSPECTS

With the optimization of pandemic prevention and control policies, the orderly recovery of consumption scene, and the continuous improvement of people's awareness of life culture, we are full of confidence in the future growth prospects of the industry. Looking ahead, we will strive to explore a new development model of the industry, reach the goal to carrying memory and emotion by the Internet technology and building the wisdom, efficient, environmental protection, warm service system, inject new connotation into the industry, continue to lead the industry reform and improve the service level. We will adhere to our strategy of expansion, look for suitable growth opportunities, strive for external development and business chain perfecting, consolidate the highly disintegrated resources of the PRC's death care industry, and boost our market share to cater for more people's need for high quality death care services. We will push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business, we will consolidate newly acquired businesses and raise their standards on a par with ours.

Meanwhile, we will strive to make our cremation machine business become an important segment of the Group's business. With much effort to promoting pre-need business with the pre-need contract business as the core and innovative ideas in our collaboration with local governments, we will strive to increase the percentage of our funeral services in the Group's business and the scale of professional design business, and foster the integration of the Internet to improve service contents and accessibility and formulate our plan for the business of death care related consumables. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at a more steady and sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our Shareholders with the best returns.

ANNUAL GENERAL MEETING

The AGM will be held on Thursday, May 25, 2023 and the notice of AGM is expected to be published and despatched to the Shareholders on or about Tuesday, April 25, 2023.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK7.58 cents per Share for the Year (Last Year: HK5.64 cents), which is subject to the approval by the Shareholders at the AGM. The final dividend is expected to be payable to the Shareholders on Friday, June 30, 2023. 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 Wednesday, June 21, 2023.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, May 22, 2023 to Thursday, May 25, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, May 19, 2023.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Monday, June 19, 2023 to Wednesday, June 21, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, June 16, 2023.

DIRECTOR'S SECURITIES TRANSACTIONS

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

During the Year, the Company repurchased 503,000 Shares through the Stock Exchange. Details of the repurchases are as follows:

Month of repurchase	Number of Shares repurchased	Repurchasing price for each Share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
September 2022	263,000	4.51	4.31	1,163,190
October 2022	<u>240,000</u>	4.29	3.98	<u>981,300</u>
Total	<u>503,000</u>			<u>2,144,490</u>

All the repurchased shares above were cancelled on December 16, 2022 and the issued share capital of the Company was reduced by the nominal value thereof. The purchases were made for the benefit of the Shareholders with an enhancement of the net asset value per Share and/or its earnings per Share.

Save for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

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

PUBLICATION OF ANNUAL RESULTS AND 2022 ANNUAL REPORT

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

DEFINITIONS

“AGM”	annual general meeting of the Company to be held on May 25, 2023
“Anhui Longmen Cemetery”	a cemetery in Suzhou of Anhui Province and operated by 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 subsidiary of the Company
“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Fushouyuan Civil Service Co., Ltd.* (安陽福壽園民生服務有限公司), formerly known as Anyang Wulong Civil Service Co., Ltd* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“ASP”	average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“CG Code”	Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Changchun Huaxia Cemetery”	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of the PRC
“Changzhou Qifengshan Cemetery”	a cemetery in Changzhou City of Jiangsu Province and operated by Changzhou Qifengshan International Cemetery Co., Ltd.* (常州棲鳳山國際人文陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Chaoyang Longshan Cemetery”	a cemetery in Chaoyang County of Liaoning Province and operated by Chaoyang Longshan Fuyuan Cemetery Co., Ltd.* (朝陽縣龍山福園公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Chongqing Baitayuan”	a cemetery in Yongchuan of Chongqing Municipality and operated by Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Company” or “Fu Shou Yuan”	Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a limited liability company incorporated under the laws of the Cayman Islands on January 5, 2012
“Director(s)”	the director(s) of the Company
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on October 10, 2011. It is a direct held subsidiary of the Company
“Group”, “our Group”, “us”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Guangxi Huazuyuan Cemetery”	a cemetery in Fangchenggang City of Guangxi Zhuang Autonomous Region and operated by Guangxi Huazuyuan Investment Co., Ltd.* (廣西華祖園投資有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2017
“Guanlingshan Cultural Cemetery”	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Guizhou Tianyuanshan”	Zheng’an Fu Shou Yuan Industrial Co., Ltd.* (正安縣福壽園實業有限公司), formerly known as Guizhou Tianyuanshan Funeral Service Co., Ltd.* (貴州天圓山殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Haigang Fu Shou Yuan”	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by Shanghai Nanyuan Industrial Development Co. Ltd.* (上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company

“Harbin Mingxiyuan Cemetery”	a cemetery in Harbin, Heilongjiang Province and operated by Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Helinge'er Anyou Cemetery”	a cemetery in Hohhot City of the Inner Mongolia Autonomous Region and operated by Inner Mongolia Fu Shou Yuan Industrial Co., Ltd.* (內蒙古福壽園實業有限公司), formerly known as Helingeer County Anyou Ecological Memorial Cemetery Co., Ltd.* (和林格爾縣安佑生態紀念陵園有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Henan Fu Shou Yuan”	a cemetery in Longhu Town, Xinzheng City of Henan Province (河南省新鄭市龍湖鎮) and operated by Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Heze Fuluyuan”	a cemetery in Heze City of Shandong Province and operated by HezeFuluyuan Cemetery Management Co., Ltd.* (荷澤福祿園公墓管理有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hubei Tiansheng Cemetery”	a cemetery in Wuhan of Hubei Province and operated by Hubei Tiansheng Cemetery Co., Ltd.* (湖北天聖公墓有限公司) a limited company established under the laws of the PRC and became a subsidiary of the Company since January 2019
“Jinsha Fuze”	Jinsha Fuze Binzang Co., Ltd.* (金沙縣福澤殯葬有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Jinzhou Maoshan Anling”	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Last Year”	the year ended December 31, 2021

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Luoyang Xianhe Cemetery”	A cemetery in Luoyang City of Henan Province and operated by Luoyang Xianhe Memorial Cemetery Co., Ltd.* (洛陽仙鶴紀念陵園有限公司), a limited company established under the PRC and a subsidiary of the Company since January 2017
“Meilin Century Cemetery”	a cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Nanchang Hongfu”	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the Company with effect from November 29, 2019
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Shanghai Fu Shou Yuan”	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Group Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Temshine”	Beijing Tian Quan Jia Jing Cemetery Construction & Design Co., Ltd.* (北京天泉佳境陵園建築設計有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since August 2017
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

“US\$” or “US dollar”	United States dollars, the lawful currency of the United States
“Wuyuan Wanshoushan Cemetery”	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Year”	the year ended December 31, 2022
“Zaozhuang Shanting Xingtai”	Zaozhuang Fu Shou Yuan Funeral and Burial Service Co., Ltd.* (棗莊市福壽園殯葬服務有限公司), formerly known as Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
“Zhengzhou Anletang”	Zhengzhou Anletang Etiquette service Co., Ltd.* (鄭州安樂堂禮儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Zhuolu Yuanbaoshan”	a cemetery in Zhangjiakou city of Hebei Province and operated by Zhuolu Longhui Tianfu Yuanbaoshan Development Management Co. Ltd* (涿鹿隆暉天富元寶山開發管理有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“%”	per cent.

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

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

Hong Kong, March 17, 2023

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. Luo Zhuping, Mr. Ho Man, Ms. Liang Yanjun and Mr. Chen Xin.