



福壽園國際集團

FU SHOU YUAN INTERNATIONAL GROUP

01448.HK



# 2023

INTERIM REPORT

福壽園國際集團有限公司  
FU SHOU YUAN INTERNATIONAL GROUP LIMITED

Stock code: 01448

Incorporated in the Cayman Islands with limited liability

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Bai Xiaojiang (*Chairman*)  
Mr. Tan Leon Li-an (*Vice-Chairman*)  
Mr. Wang Jisheng (*Chief Executive*)

### Non-executive Directors

Mr. Lu Hesheng  
Mr. Huang James Chih-Cheng  
Ms. Zhou Lijie

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

Mr. Ho Man (*Chairman*)  
Mr. Huang James Chih-Cheng  
Mr. Luo Zhuping  
Mr. Chen Xin

## NOMINATION COMMITTEE

Mr. Bai Xiaojiang (*Chairman*)  
Mr. Wang Jisheng  
Mr. Luo Zhuping  
Mr. Ho Man  
Ms. Liang Yanjun

## REMUNERATION COMMITTEE

Mr. Luo Zhuping (*Chairman*)  
Mr. Tan Leon Li-an  
Ms. Liang Yanjun

## COMPLIANCE COMMITTEE

Ms. Liang Yanjun (*Chairman*)  
Mr. Luo Zhuping  
Mr. Ho Man

## COMPANY SECRETARY

Ms. Hu Yi

## AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang  
Ms. Hu Yi

## REGISTERED OFFICE

Ocorian Trust (Cayman) Limited  
Windward 3, Regatta Office Park  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

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Shanghai  
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## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Windward 3, Regatta Office Park  
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Grand Cayman KY1-1108  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

Shanghai Pudong Development Bank  
Construction Bank of China  
Shanghai Rural Commercial Bank  
Bank of Communications  
Bank of Shanghai  
Citibank, N.A.

## AUDITOR

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Registered Public Interest Entity Auditors  
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Hong Kong

## STOCK CODE

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## WEBSITE

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# CHAIRMAN'S STATEMENT



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the results of the Group for the six months ended June 30, 2023 (the period under review) to all shareholders for review.

As the economic activities such as commerce, retail, consumption and services have gradually recovered in the past six months, and overall consumer confidence has returned to a positive trend. In the first half of the year, the gross domestic product of China grew by 5.5% year-on-year. As a leading death care and life technology service provider in China, Fu Shou Yuan has been deeply committed to the concept of green and environmental protection for many years. With the increasing demand for green and environmentally friendly funerals, coupled with the market demand for high-quality consumption, including high-quality death care services which regained momentum, the Group recorded a significant recovery in its results during the period under review.

For the six months ended June 30, 2023, Fu Shou Yuan recorded a revenue of RMB1,524.5 million, representing an increase of 68.2% over the corresponding period of 2022, and a net profit of RMB585.5 million, representing an increase of 79.0% over the first half of 2022, of which, profit and comprehensive income attributable to owners amounted to RMB464.7 million, representing an increase of 78.0% over the first half of 2022. The Board proposed to distribute an interim dividend of HK9.06 cents per Share for 2023, which is in line with the Group's committed dividend policy to reward Shareholders for their long-term trust and support.

Fu Shou Yuan has been dedicated to leading the development of the death care industry and has continuously expanded its reach in the industry chain. It actively expanded to the field of digital life services, and placed greater emphasis on caring for and comforting individuals on a spiritual level to address people's aspirations for a better life by using technology to empower the transformation of life services. To this end, Fu Shou Yuan made significant efforts to improve its "Internet + death care" services, established the Fu Shou Cloud platform, and has become a leading provider of death care and life technology services in China.

Thanks to its innovative achievements in brand building over the past 30 years, Fu Shou Yuan has received widespread recognition in the industry. In May 2023, as recommended by relevant departments and media, the Group participated in the 2023 Brand Power (Kunming) International Summit Forum and China Top 500 Innovative Brands Release Conference, and was selected as one of the Top 500 Innovative Brands in China, alongside companies such as Tencent and Alibaba. This was the second time for Fu Shou Yuan to participate in brand value evaluation, and the Group's brand value was assessed to be RMB11.978 billion, an increase of 284% as compared with that in 2017, which was a full recognition of the Group's successful brand development in recent years and its future potential.

Fu Shou Yuan continued to deepen its presence in the death care industry and expanded its industrial chain in the life service industry by actively expanding and innovating its services. In June 2023, Fu Shou Yuan signed a contract for the funeral service project in Hunnan District, Shenyang, Liaoning Province, further improving Fu Shou Yuan's coverage of funeral industry chain in Northeast China. This move is expected to promote the integrated development of funeral services in the region and enable Fu Shou Yuan to provide better funeral services to the people of Shenyang.

Fu Shou Yuan actively undertakes its corporate social responsibility and conducts in-depth exchanges and cooperation with different fields and industries to push the life service industry to a broader stage and extend the reach of humanized life services to the general public. After a year of planning, in April, 2023, the Group formally established the Shanghai Qingpu Li Ji Academy of Continuing Education ("Li Ji Academy"), which was officially approved as a non-degree higher education organization, becoming the first corporate death care vocational



## CHAIRMAN'S STATEMENT

education institute in China. With the original intention of “serving the society through the industry”, Li Ji Academy will spare no effort in developing the higher education of funeral services and training of talents. At present, Li Ji Academy has established cooperation with the National Funeral Directors Association (NFDA), and the first international “Memorial Arranger” training course in Asia was launched at the beginning of June, 2023, which marked a significant step in the Group’s exploration of education and talent internationalization and set a new milestone for the death care industry.

In 2023, Fu Shou Yuan continued to support the national initiative of “Digital Economy” construction by actively expanding its Internet mindset and embedding digital technology into its traditional business, including the launch of the “Digital Cemeteries • Huixin Valley” project, which marked Fu Shou Yuan’s official entry into the field of digital life services. Following the launch of the VR panoramic park tour last year, the Group’s Changzhou Qifengshan Cemetery launched the digital immersive tomb sweeping service during the recent Qingming Festival to allow the public to experience digital tomb sweeping. In June, 2023, the Group held the launch conference for digital transformation and “3JI” products, and released the “3JI” innovative iterative products integrated with “marking, commemorating and recording”. In addition, the first digital human model of Fu Shou Yuan which was based on a famous media worker Cao Jingxing was also displayed at the venue.

In fact, 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 to build an online 3D memorial hall for the deceased, collect and organize information such as images, graphics and sounds to provide users with immersive digital funeral products. All of these demonstrate the Group’s continuous efforts in keeping abreast of the times in its digital transformation strategy.

During the period under review, Fu Shou Yuan made use of modern internet technology to move funeral services to JD.com, which presented clear information on cemetery culture, purchase of funeral supplies, all-year-round tomb-sweeping service, and pre-need funeral packages (pre-need contracts) to provide funeral services in a more open and transparent manner. The online shopping mall received positive response during the period under review.

With the structural changes in Chinese society, characterized by an aging population and a declining birth rate, the demand for pre-arranged funeral services has been steadily increasing, leading to continuous growth in the industry. Looking forward, the Group will continue to adhere to the original aspiration of “running a good enterprise and changing the entire industry” and actively pursue breakthroughs in corporate transformation, product development and service improvement, including the continuous launch and development of high-quality products, digital cemetery, development of online and offline sales channels, and cooperation with different organizations in order to create long-term benefits for the industry and our Shareholders.

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 reached a new historical starting point, promoting people's well-being to a new level and continuously enhancing people's sense of satisfaction, happiness and security will be the key goals of China's future development in people's livelihood. In the new era, people's desire for a better life has extended from "life" to "death". Improving the quality of people's funeral services and achieving "peaceful death" have become the major issues in the field of death care service and have been promoting the development of China's death care service industry in depth.

In recent years, China has been undergoing rapid urbanization. The steady increase in the level of urbanization will give rise to a wide range of demands from the new urban population in various areas such as infrastructure, healthcare and consumption. According to the documents 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 was 65.2%, representing an increase of 0.5 percentage point compared to the end of 2021. At the same time, the level of China's aging population has further heightened. At the end of 2022, the number of people aged 60 and above reached 280.04 million, 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 will successively enter old age, resulting in a sharp increase in China's aging population. In addition, with the continuous advancement in funeral reforms and customs changes, the cremation rate of remains in China continues to increase. In 2021, 5.966 million bodies were cremated nationwide with a cremation rate of 58.8%, 3.1 percentage points higher than that of 2020. Looking ahead, the acceleration of and interplay between 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.

China has made great efforts to promote high-quality economic development, and production has returned to normal, leading to a continuous increase in the economic activities of the service industry and a continuous recovery in the consumer market. According to the National Bureau of Statistics of China, in the first half of 2023, the country's GDP amounted to RMB59,303.4 billion, representing a year-on-year increase of 5.5% on constant price basis, with the overall economy showing favorable resumption. In the first half of 2023, the disposable income per capita of urban residents was RMB26,357, representing a year-on-year nominal growth of 5.4% and an actual growth of 4.7% after deducting price factors compared to 2022. The consumption expenditure per capita of urban residents was RMB15,810, representing a year-on-year nominal growth of 7.7% and an actual growth of 7.0% compared to 2022. In addition, China maintained its momentum in consumption upgrading with its residents' demand for quality continues to increase, the concept of green and environmental protection becoming more popular, and the willingness to spend for services remaining strong. As a funeral service provider with human touch, while satisfying the basic funeral service needs, we will also cater for the public's growing demands for diversified and differentiated services with high quality, providing multi-layered service content and more convenient service scenarios to extend humanistic care and emotional comfort to the deceased and their families.



# MANAGEMENT DISCUSSION AND ANALYSIS

In recent years, the death care service sector in China has been pressing ahead in terms of reform and innovation, so as to strengthen system construction and advance 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 further improves the public death care service system and enhances the government's ability to provide basic death care services. It will further accelerate the reinforcement of weaknesses in death care service facilities and practically improve the standard of governance in the death care service sector, while further regulating 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. In addition, 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 the provision of legal protection in death care management, promotes the market-oriented and standardized development of the industry, and ultimately achieves the long-term healthy growth of China's death care service industry. The Group expects that 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 above-mentioned regulations 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 public through death care services that meet both psychological and cultural needs.

The Opinions on Promoting the Development and Expansion of the Private Sector Economy (《關於促進民營經濟發展壯大的意見》), issued in July 2023, covers a total of 31 articles in eight sections, proposing a package of synergistic policies in respect of the development environment, policy support and the safeguarding of rule of law for the private sector economy. It especially stipulates the relevant arrangements for the high-quality development of the private sector economy, including the continuous optimization of the development environment of the private sector economy, the construction of a high-level socialist market economic system, the continuous optimization of a stable, fair, transparent and predictable development environment, and the full stimulation of the vitality of the private sector economy, which have charted the direction for sustainable development and expansion of China's private sector economy. With the continuous introduction of specific measures to optimize the business environment across the country and the steady progress of the "Decentralization-Control-Service" reform, market vitality will be further stimulated, which will be beneficial for the Group to make more positive contributions to the death care service industry.

# MANAGEMENT DISCUSSION AND ANALYSIS



With regards to the technology in 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. By promoting the integration of the internet and death care services and developing new service modes 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 procedures, and standards for online memorial halls and its evaluation and improvement. During the Qingming Festival in 2023, a total of 5.5117 million people chose to carry out worship online, which has become an important way for the public to express their grief and remember the deceased. The Internet is advancing the transformation 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 a distinguished death care service provider and industry leader in China, we will continue to elevate our technological innovation capability and accelerate the application of digital transformation in death care services.

As China’s economic development 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, the government’s vigorous promotion of traditional Chinese culture and virtues, the accelerating urbanization progress, the aging population and the rising cremation rate of remains in China 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 will be 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 the vitality of market entities and 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 public’s 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 China.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS COMMENTARY

With economy and society resuming normal across the country and macro policies taking effect, China's economy has been rebounding and improving with steady progress in high-quality development. In the first half of 2023, the country's GDP accumulated to RMB59,303.4 billion, representing a year-on-year increase of 5.5% on constant price basis, and the overall economy is presenting a stable and resuming trend.

During the Period, the Group kept its focus on sustainable and fast development amidst the new era and environment. We explore in the dual dimension of both market and product, endeavoring to satisfy the diversified and differentiated consumer needs of customers, especially on the spiritual fronts, with efforts in multiple aspects including service expansion, technology leadership and cultural innovation.

In respect of cemetery business, on one hand, we have made prompt arrangements, evaluating the accumulated and delayed consumption demands to achieve an early “lock in” of customer pipeline, which involves the precise analyze and grasping of customer's pain points and demands, as well as the development and upgrade of responsive products and services. On the other hand, pursuant to the Group's strategic transformation on the digital technology front, we have been stepping up our implementation and exploration in the areas of Cloud Memorial, digital cemetery and digital assets. We will never content with the mere transformation of cemeteries into parks and making them beautiful “Monuments”, instead, we are also eager to deepen the “Heritage” and prolong the “Memories” with digital means, in an effort to establish ourselves as a science-based life service provider that passes on spiritual heritages. With the successful establishment of Huixin Valley by Shanghai Fu Shou Yuan, and based on our profound research and contemplation to its brand-new concepts in scenic design and life services, we have developed “3JI”, an innovative product with iterative computing function, to realize our pursuance in “Monument, Memories and Heritage”, in short, to create beauty with monuments, show lasting yearning with memories, and deepen respect to heritage. In terms of monument, Fu Shou Yuan has set up a demonstration zone in Shanghai Huixin Valley under the theme of “Garden of Heal”. It draws inspiration from Monet, the impressionist master, to depict a picture of life and create a beautiful space for the departed to rest and the living to share. In terms of memories, “3JI”, our innovative iterative product, is able to create a funeral ceremony that will leave a lasting impression on attendees, which features immersive digital auditoriums, 270-degree surround screens, holographic projections, or scenario experiences such as lawn concerts. The product can also be used for subsequent events such as family reunions, birthday anniversary of the deceased for educational purpose and commemoration at the death anniversary. In terms of heritage, “3JI”, our innovative iterative product, also provides services such as life memoirs, digital genealogy and online memorials, preserving crucial details, photos, videos and other digitized assets of a person's life to pass on family history and spiritual treasures.

Not only have we endeavored to extend and broaden our product coverage, but we have also kept enhancing our cemetery management with digital and technological empowerment, in a bid to improve resource utilization, protect ecological diversity and maintain harmony with environment. To implement the national dual carbon strategy and practice our corporate and industry responsibility, Shanghai Fu Shou Yuan assesses the “carbon footprint” of the tomb stones we procured. It is our aims to estimate the carbon emissions across the Group and the industry by evaluating those of each tomb stone. By reducing energy consumption, enhancing energy efficiency and facilitating sustainable development of enterprises, we hope to promote high-quality economic development while maintaining harmony between man and nature.

# MANAGEMENT DISCUSSION AND ANALYSIS



During the Period, the EPC model of Temshine, a wholly-owned subsidiary of the Company, has undergone significant refinement and made progress not only in terms of construction efficiency and standards, but also managed to acquire service contracts from projects outside of the Group. 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. With the growing demand for constructing burial and funeral facilities in the PRC, the establishment and development of EPC model is a positive driving force of and serves strategic value for exploring new service content of the Group in the future and driving increase in new values. In addition, the design business of Temshine continued to make full play to its market access, especially those to the construction of government-led funeral facilities. It has won a number of large and medium-sized contracts in the first half of the year, with multiple projects being closely tracked. Further, the design business conducted preliminary cooperations with government platforms to obtain high-quality project information and create opportunities for cooperation between government and enterprises, bringing the Group larger information capacity.

In respect of funeral services business, we focused our efforts on four areas during the Period, namely, business restructuring, services innovations, training and development and standardized management. We have launched a business initiative named "Five Ups & Five Downs" to ensure more reasonable and healthier operational indicators, and made our innovations in embalming, paper coffin, SPA and high-end hearse as a leverage to promote the high-quality development of our funeral services on a sustainable basis, thereby fulfilling 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.

In respect of innovations in digital technology, during the Period, we focused on building our capacity of intelligent value creation and comprehensive resources utilization in the life service ecosystem, and continued to expand the service scope of our technological products, with a more in-depth and solid services system merging online and offline, as well as user services with more refined details. On the foundation level, we have completed the VR environment system of Shanghai Fu Shou Yuan to provide basic support for further development of our online services. On the application level, we have successfully implemented a technology to generate "digital person", which uses both two-dimensional and three-dimensional display methods to restore the image of a person, who is able to carry out free communication powered by AI training and data base. We showcased a "digital person" with AI communication function, the first of its kind in the industry, on the 9th China International Funeral Equipment & Supplies Expo (第九屆中國國際殯葬設備用品博覽會) (CIFE), which has received wide attention from the industry. Meanwhile, we have completed the commercialization of our immersive funeral system and started to serve various users on a continuous basis. In terms of cloud services, both the user retention rate, activity rate and payment rate of Cloud Memorial experienced a continuous rise during the Qingming Festival this year, indicating that, after three years of use, users have begun to get accustomed to carrying out worship and commemoration with Cloud Memorial.



# MANAGEMENT DISCUSSION AND ANALYSIS

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. During the Period, people have gained a deeper understanding of life, which brought the pre-need contract business a new high with a total of 9,272 signed contracts, representing an increase of 18.4% compared to the same period of last year (same period of last year: 7,834 contracts). Firstly, we have popularized pre-planning through board games about life, such that people's acceptance of these services have been further enhanced, which also makes it easier for the multi-channel promotion of contract products. Secondly, we have also launched our pre-need contract and various peripheral products on online platforms such as JD and Taobao. 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. A sequential system of innovative products has now been developed, which also provides a targeted front-end scenario for the marketing of pre-need contract products. In addition, the pre-need contract service system is highly regarded among customers by virtue of its prompt and high-quality services in all circumstances. The supply capacity of the entire service system has also been further validated and optimized. We will integrate more funeral service providers through the export of our business model to create a service network with larger and denser coverage, 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 Period, with a focus on the innovation and environmental protection ability of our products, we have actively introduced, through self-development, various types of practical and innovative equipment with purification technology inside and outside the industry, which further optimized the level of our process and design and improved our capabilities in equipment manufacturing. We have successfully developed a new type of cremator, JS3-II, which greatly reduces the time of cremation and is expected to save energy consumption by more than 10% after being put into use. We have also manufactured exhaust purification equipment that can perform cooling, acid removal and dust removal functions simultaneously, and it is expected that with this equipment, our overall cost can be reduced by more than 15%. At the same time, we actively maintain domestic and foreign customers by providing quality pre-sales technical support and after-sales repair and maintenance. During the Period, we entered into sales cooperation agreements with various domestic partners for cremators, the exhaust purification system ancillary to them and certain ancillary equipment, while continuous effort have been made for "Jiesheng" to go abroad and make the brand known all over the world. While the Group will further invest in R&D with a focus on targeted markets to design and manufacture less costly and highly adaptable equipment for the funeral industry, more resources will be devoted to the marketing and promotion of our cremators to constantly improve production quality and service system construction and the practice of green concepts, thereby maintaining its leading position in the market in terms of technology.

# MANAGEMENT DISCUSSION AND ANALYSIS



In relation to the expansion of our cemetery and funeral business, the Group continued to expand its presence into key regions and key cities, seeking replicable models for rapid development by means of mergers and acquisitions of high-quality development as well as innovative drivers of mixed reform projects and cooperative projects. During the Period, the Group acquired 100% equity interest in Yan'an Hongfu. This project is a funeral integration project comprising the operation of a cemetery and the provision of funeral services. 428 mu of land for funeral construction has been acquired through bid invitation, auction and listing. This project is the Group's first strategic foothold in Shaanxi Province, where Yan'an City is one of the most important revolutionary bases of China with great historical significance. The Group will develop the project into a Shaanxi-Gansu Revolutionary Memorial Park celebrating communist values in the future. The Group has also reached and signed a cooperation agreement with Shenyang Fuyuan Industrial Group Co., Ltd.\* (瀋陽福園實業集團有限公司) ("Shenyang Fuyuan"), under which both parties will establish a joint venture in Shenyang to develop funeral service-related business. Shenyang Fuyuan is a member of a group which is a sizable state-owned funeral group in Shenyang. This project is the Group's first government-enterprise cooperative project in the funeral sector in the northern region and represents a further improvement of the Group's funeral industry chain in the northeastern region. As of now, our footprint covers over 40 cities in 20 provinces, autonomous regions and municipalities in China, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Jilin, Heilongjiang, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia, Gansu, Hubei, Hebei and Shaanxi, which covers our operating cemeteries and funeral facilities in major cities across 17 provinces, municipalities and autonomous regions in China.

The Group has always attached great importance to organizational vitality and talent development. By actively establishing a multi-channel development model for its employees and an innovative organizational incentive mechanism, it has built a pipeline of outstanding professional talent while exploring the industrial chain in a reasonable way, giving full play to the important role of professional and skilled talents in the Group's development. During the Period, in collaboration with an external professional consulting team, we continued to strengthen team building, improve operational structure, advance the standardization of business processes and enhance systematic construction. The award and incentive systems for employees have been enriched and optimized, and we have introduced a science-based personal performance management system, which has prompted the team and the Group to develop a strategic vision with shared goals and fully adhere to the Group's strategic development objectives.



# MANAGEMENT DISCUSSION AND ANALYSIS

Since the establishment of the “Fu Shou Yuan Life Service Academy” (福壽園生命服務學院) in 2016, we have been adhering faithfully to the original aspiration of humanistic inheritance education. We have always been committed to shouldering our corporate responsibilities by incorporating an international vision into the current situation and trend of China’s death care service industry as well as continuously empowering the industry with knowledge, innovation and talent incubation. Upon obtaining approval from the Qingpu District Education Bureau, Shanghai in December 2022, Shanghai Qingpu Li Ji Academy of Continuing Education (上海青浦禮濟進修學院) (Li Ji Academy) has been incorporated in April 2023. As a private non-academic higher education institution officially approved by the Education Bureau and the first vocational education institution for deathcare service industry in the country, Li Ji Academy is committed to establishing itself as the industry’s business school, industrial school, social sciences school and international school. Li Ji Academy will collaborate with various tertiary institutes to assist self-taught adults in examinations, in order to inspire those interested in pursuing a career in death care service industry to receive further education and training, thereby expanding the pool of talents for the industry. Also, it develops in-depth “Industry-University-Research” collaborations with vocational education institutes to nurture professional talents for the death care service industry. In addition, it works hand in hand with the practitioners of life education in the society to nurture life social workers (i.e. social workers specialised in education, elderly, hospice care and funeral) with high schools. Moreover, it cooperates with a number of international funeral industry associations, including the World Organization of Funeral Operatives (FIAT-IFTA), National Funeral Directors Association (NFDA), International Cemetery, Cremation and Funeral Association (ICCF) and Australian Funeral Directors Association (AFDA), with a view to establishing a sound and globally-recognised training certification system as well as enhancing the professionalism of industry’s practitioners for the sake of aligning with international advanced standard. Upholding the principle of “Industry Serving the Society”, Li Ji Academy will spare no efforts in developing higher education of funeral profession closely aligned with industry demands. In a response to the country’s initiative of enterprises’ involvement in vocational education and the implementation of “academic certificate + vocational skill level certificates” (1+X) pilot scheme, we integrated practical skills of the industry into vocational education to nurture skilled, qualified and well-educated talents for the development of the industry. Looking forward, Life Service Academy will continue to empower its staff in executing various tasks for the enterprise’s internal education, while Li Ji Academy will shoulder its corporate responsibilities to make a joint effort in contributing our wisdom and efforts to the modernization and development of vocational education of funeral profession in China.

The Group continued to uphold our “People-oriented and Culture-rooted” philosophy and follow the development strategy of transforming from a funeral service provider to a funeral and life technology service operator and extend Fu Shou Yuan from the earthly realm to the spiritual realm. We aim to make “Monuments” beautiful, deepen the “Heritage” and prolong the “Memories”, thereby establishing ourselves as a technological based cultural enterprise that passes on spiritual heritages. During the Qingming Festival in 2023, a total of 14,283 pieces of messages related to “Fu Shou Yuan” were recorded across the Internet, representing a year-on-year increase of 22%. Fu Shou Yuan’s innovative memorial services, such as “Online Tomb Sweeping” (雲祭掃), “Online Memorial” (雲紀念), “VR Tomb Sweeping” (VR實景祭掃), digitalized exploration of the “JD Channel on Spring Ancestral Worship” (京東春祭頻道), “Postbox to Heaven” (天堂郵筒), “Water-soluble Paper Worship” (水溶紙祭祀) and “Family Letter for Qingming Festival” (家書祭清明) were well-received by the general public. Cultural activities such as the 5th Qingming Forum of Peking University, the Life Book Club in the Life Bookstore and hospice care projects, anatomical donation memorial activities, charitable activities such as charitable ecological funerals, life education philosophy dissemination and the stories of funerary practitioners were liked by netizens. The 9th CIFE was held in Qingdao, Shandong in June 2023. During the CIFE, the Group held the Digitalized Transformation and “3JI” Product Launch Event, where its innovative and iterative product, “3JI”, a combination of “Monuments, Memories, and Heritage” was launched. The six major modules were also highlighted in the event, namely

# MANAGEMENT DISCUSSION AND ANALYSIS



environmental-friendly machine manufacturing, customised memorial supplies, life education, pre-need services, Fu Shou Cloud Technology and Temshine design institute. Besides, we promoted our brand concept through various means including seminar on the event theme, mini-lessons by Li Ji Academy as well as thematic reports on Sino-Japanese cultural exchanges. On another front, the first “digital person” model produced by Fu Shou Yuan modelling on a well-known media figure, was displayed on site and attracted widespread attention. The third batch of Quality-Oriented Education Premium Programmes in Shanghai has been officially launched on the “Quality-Oriented Education Premium Resources Platform for Students in Shanghai” in April 2023. Riding on its rich red cultural background while embodying memorial cultural elements, Fu Shou Yuan ingeniously designed the Humanities Experiential Courses entitled “In Search of the Footprint of Original Aspiration with Respect for the Great Achievements of the Country”, which has been selected as one of such programmes and included in the catalogue of the “Off-Campus Experiential Courses” on the platform. In June, the “Sages and Shanghai’s Urban Memory” forum was jointly hosted by the Humanities Memorial Museum of Shanghai Fu Shou Yuan. With “all rivers flow to the sea while all great ways share a common spirit” as the theme, it aimed to commemorate the 75th anniversary of the “May Day slogan” promulgated by the Central Committee of the Chinese Communist Party. The historic role of the “May Day slogan” and its present-day inspiration have been explored from multiple perspectives in the forum. The Group has gained wide recognition for its achievements in such aspects as charitable activities, technological innovations and brand development, receiving a number of awards including “Annual Excellent Charity Communication Case” (年度優秀公益傳播案例) in the China Economic Media Integration Development Summit Forum, “Top 10 Public Welfare Projects of the Year” (年度十佳公益項目) in the Shanghai Public Welfare Selection, “Outstanding Digital Innovation Enterprise” (傑出數字化創新企業) at the 4th Brand Innovation Development Conference and “2023 Sustainability Contribution Award” (2023綠色可持續發展貢獻獎) in the International Green Zero-carbon Festival. Particularly worth mentioning is that, at the “2023 Brand Power (Kunming) International Summit Forum and China Top 500 Innovative Brands Release Conference”, the Group, riding on its innovative achievements in brand building over the past 30 years, was ranked among the State Grid, Huawei Technologies, Tencent Technology and Alibaba as “China Top 500 Innovative Brands in 2023”, based on recommendations by relevant authorities and various media, with a brand value of RMB11.978 billion, an innovation index of 428.57 and a rank of 239.

In view of the above, the concerted efforts of all members in the Group have contributed to a considerable growth during the Period. The Group recorded a total revenue of RMB1,524.5 million, representing an increase of approximately 68.2% compared to the same period of last year. Profit and comprehensive income attributable to the owners of the Company amounted to RMB464.7 million, representing an increase of approximately 78.0% compared to the same period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

During the Period, our revenue increased by RMB618.1 million or 68.2% to RMB1,524.5 million from RMB906.4 million in the same period of last year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. The following table sets forth our revenue by segment for the Period:

	Six Months Ended			
	June 30, 2023		June 30, 2022	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Burial services	1,287,173	84.4%	727,553	80.3%
Funeral services	224,004	14.7%	164,460	18.1%
Other services	20,386	1.3%	22,317	2.5%
Inter-segment elimination	(7,021)	(0.4%)	(7,937)	(0.9%)
<b>Total</b>	<b>1,524,542</b>	<b>100.0%</b>	<b>906,393</b>	<b>100.0%</b>

## BURIAL SERVICES

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

	Six Months Ended			
	June 30, 2023		June 30, 2022	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plots services				
Ordinary business plots	9,787	1,183,455	6,099	642,136
Public welfare plots and tomb relocation	1,890	5,412	5,201	14,565
	<b>11,677</b>	<b>1,188,867</b>	<b>11,300</b>	<b>656,701</b>
Other burial services		98,306		70,852
<b>Total revenue from burial services</b>	<b>11,677</b>	<b>1,287,173</b>	<b>11,300</b>	<b>727,553</b>

# MANAGEMENT DISCUSSION AND ANALYSIS



During the same period of last year, the market demand for burial services were temporarily restrained. During the Period, the accumulated and deferred market demand for burial plot services came up with higher volumes of customers visiting our cemeteries, resulting in a swift sales rebound. During the Period, revenue from sale of burial plots services for ordinary business purpose increased by RMB541.3 million or 84.3% as compared to the same period of last year, and sales volume increased by 3,688 or 60.5%. Meanwhile, the revenue contribution from cemeteries in Shanghai was impacted by the Covid-19 outbreak and lower in the same period of last year, resulting in a relative lower base of ASP. During the Period, cemeteries in Shanghai has posted a strong revenue contribution and hence the ASP increased by 14.9%. During the Period, sale of public welfare plots and tomb relocation recorded RMB5.4 million, which related mainly to 1) tomb relocation and construction service to meet the market demand due to certain government's plan to develop local infrastructure construction; and 2) public welfare plots services rendered to designated people. The reduction in the sale of public welfare plots and tomb relocation was mainly due to one-off large-scale tomb relocation activity in the same period of last year.

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

	<b>Six Months Ended</b>			
	<b>June 30, 2023</b>		<b>June 30, 2022</b>	
	<b>No. of burial plots</b>	<b>Revenue (RMB'000)</b>	<b>No. of burial plots</b>	<b>Revenue (RMB'000)</b>
Sale of burial plots services for ordinary business purpose, from:				
Comparable cemeteries*	<b>9,785</b>	<b>1,183,268</b>	6,099	642,136
Cemeteries related to acquisitions/new construction	<b>2</b>	<b>187</b>	—	—
<b>Total revenue from sale of burial plots services for ordinary business purpose</b>	<b><u>9,787</u></b>	<b><u>1,183,455</u></b>	<b><u>6,099</u></b>	<b><u>642,136</u></b>

\* Comparable cemeteries refer to those cemeteries owned and operated by the Group for the entire period from January 1, 2022 to June 30, 2023.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, revenue from sale of burial plots services for ordinary business purpose in comparable cemeteries increased by RMB541.1 million or 84.3% as compared to the same period of last year. Its sales volume increased by 3,686 or 60.4%. This is because cemeteries resumed to normal operation during the Period. Around Qingming Festival, the number of customers visiting the cemetery parks to purchase the burial plot or perform the tomb sweeping has significantly increased and the accumulated and deferred market demand for burial services have come up swift and strong. In particular, the sales volume of the two cemeteries in Shanghai which were severely affected by the pandemic in last year has picked up significantly during the Period together with the delivery of high quality service and innovative burial plot products to the customers. Meanwhile, the ASP increased by 14.9%, due to the combined effect of improved products mix, contributions from various cemeteries and the increase in their value, etc. In particular, the ASP of two cemeteries in Shanghai were the highest among the Group, however, as the proportion of sales in Shanghai area decreased last year due to the pandemic, the Group's ASP reported a lower base in the same period of last year. During the Period, revenue rebounded strongly in the two cemeteries in Shanghai, leading to the increased Group's ASP. Revenue from sale of burial plots services for ordinary business purpose in newly acquired or newly developed cemeteries increased by RMB0.2 million, mainly due to the contribution from Heze Fuluyuan which started to operate during the Period. The ASP of burial plots sold for ordinary business purpose in newly acquired cemeteries was lower than that of comparable cemeteries, as the cemeteries are located at different regions and these new cemeteries need time to improve their landscape, enhance the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers and to increase the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals. Leveraging on our advanced philosophy, extensive management experience in death care business and a strong team of professionals, those new cemeteries are expected to achieve profitable growth in the future.

## FUNERAL SERVICES

The following table sets forth the breakdown of revenue from our newly acquired/established and comparable funeral facilities during the Period:

	Six Months Ended			
	June 30, 2023		June 30, 2022	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	41,691	223,972	34,673	164,460
Facilities related to new acquisitions/new construction	2	32	—	—
Total revenue from funeral services	<u>41,693</u>	<u>224,004</u>	<u>34,673</u>	<u>164,460</u>

\* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2022 to June 30, 2023.

# MANAGEMENT DISCUSSION AND ANALYSIS



During the Period, revenue from funeral services increased by RMB59.5 million or 36.2%. The volume of funeral services increased by 7,020 households or 20.2%, while ASP increased by RMB630 or 13.3%. Revenue from comparable funeral facilities and services increased by RMB59.5 million or 36.2%. The service volume increased by 7,018 households or 20.2%, while ASP increased by approximately 13.3% as compared to the same period of last year. The aforesaid increase was mainly due to the following combined effect: 1) funeral facilities resumed to normal operation and value-added services such as wake services, ceremonial farewell services were allowed to be performed after the lifting of epidemic prevention and control measures such as restrictions on gatherings in various regions; 2) the funeral facilities which were established in recent years and the brand image were accepted by local market have started to contribute more in terms of service volume and revenue; and 3) the increase of funeral service volume together with the acceleration of aging population, urbanization process and increased cremation rate in the local market.

During the Period, the revenue from facilities related to new acquisitions/new construction was contributed by Yan'an Hongfu's funeral services, which was acquired in June 2023.

## GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities under operation are strategically located in major cities across 17 provinces, municipalities and autonomous regions in the PRC. The following table sets forth a breakdown of revenue from burial services and funeral services by region during the Period:

	Six Months Ended			
	June 30, 2023		June 30, 2022	
	Revenue (RMB'000)	% of Total Revenue	Revenue (RMB'000)	% of Total Revenue
Shanghai	734,283	48.6%	328,550	36.8%
Liaoning	112,771	7.5%	74,224	8.4%
Anhui	102,077	6.7%	91,533	10.3%
Henan	94,380	6.2%	47,534	5.3%
Jiangsu	76,644	5.1%	57,795	6.5%
Shandong	74,407	4.9%	63,744	7.1%
Jiangxi	63,617	4.2%	55,010	6.2%
Chongqing	57,096	3.8%	45,782	5.1%
Heilongjiang	54,002	3.6%	30,574	3.4%
Fujian	36,517	2.4%	27,157	3.0%
Guizhou	33,546	2.2%	25,783	2.9%
Zhejiang	33,100	2.2%	22,712	2.5%
Gansu	15,913	1.0%	8,023	0.9%
Guangxi	11,731	0.8%	5,192	0.6%
Inner Mongolia	10,041	0.7%	7,793	0.9%
Hubei	977	0.1%	607	0.1%
Shaanxi	75	0.0%	—	—
<b>Total</b>	<b>1,511,177</b>	<b>100.0%</b>	<b>892,013</b>	<b>100.0%</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, revenue in all regions increased to different degrees thanks to the realization of the accumulated and deferred market demand from prior year. Revenue from Shanghai region has reported a significant increase due to a swift and strong sales rebound and the lower base in the same period of last year. Revenue from Shaanxi region is related to Yan'an Hongfu's funeral services, which was acquired in June 2023.

## OTHER SERVICES

Revenue from other services for the Period mainly represented revenue of approximately RMB6.6 million generated from our professional design services offered to cemeteries and funeral parlours throughout the nation, revenue from Construction Services ("EPC") of RMB3.9 million, and revenue from the sale of cremation machines and other related services of approximately RMB5.9 million.

## OPERATING EXPENDITURES

The Group's operating expenditures, which accounted for 44.6% of total revenue for the Period (the same period of last year: 54.9%), increased by RMB182.2 million or 36.6%. The significant increase in the number of business activities and sales services after the epidemic led to an increase in various operating expenses, but the decrease in the proportion of operating expenses to total revenue compared with previous years reflects the improvement of the Group's operating efficiency. Meanwhile, the Group continued to optimize the resource allocation in order to best meet the development needs and achieve a cost-effective operation.

The Group's staff costs include staff salaries, bonuses and benefits. During the Period, the staff costs increased by RMB64.5 million or 30.6%. Such increase was mainly attributable to the combined effects of the return of staff salaries to normal level, relative incentive policies have been restored, and during the Period, we no longer enjoyed various social security reduction and exemption policies as the same period last year, as well as newly acquired companies such as Heze Fuluyuan which started to construct and operate with staff costs incurred.

The construction costs relate to the expenditures in building burial plot products (excluding stone materials). During the Period, the construction costs increased by RMB3.9 million or 7.7%, mainly due to the combined effects of (1) newly acquired or established companies' construction costs, and (2) the expenditure incurred during the Period on the existing projects inherited from prior year. Meanwhile, the Group focuses on cost invested in construction, through optimizing the vendor pool and suppliers ranking, reducing overall procurement and engineering costs while maintaining quality and quantity, continuously improving the return on investment in construction.

Consumed materials and goods relate to materials and goods consumed when we provide burial, funeral and other services. They also include the materials and goods consumed when we build burial plots. During the Period, the consumed materials and goods increased by approximately RMB39.9 million or 56.9%, in line with the growth of business volume of burial and funeral services during the Period. Meanwhile, the Group focuses on implementing the centralized procurement to a larger scale and to cover more materials with a view to continuing to reduce overall purchase costs.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Period, the marketing and sales channel costs increased by RMB8.6 million or 52.8%. Such increase related mainly to the investment in the local marketing activities and nation-wide industry exhibition, etc. and was aimed to support the rapid rebound of the business. The increase in such costs was in line with the increase in business volume and sales revenue.

# MANAGEMENT DISCUSSION AND ANALYSIS



Depreciation and amortization increased by RMB3.2 million or 4.2%, mainly due to the commencement of operation of certain new cemeteries and funeral facilities in the last year.

Other general operating expenditures increased by RMB23.2 million or 38.0%. The increase of other general operating expenditures such as office expense and travel expense and etc. was mainly in line with the improved sales performance during the Period.

## OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, our operating profit for the Period increased by RMB435.9 million or 106.5% as compared to the same period of last year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Period:

	Six Months Ended			
	June 30, 2023		June 30, 2022	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	801,603	62.3%	391,996	53.9%
Funeral services	46,769	20.9%	21,936	13.3%
Other services	(4,525)	(22.2%)	(4,388)	(19.7%)
Inter-segment elimination	1,311	(18.7%)	(326)	4.1%
<b>Total</b>	<b>845,158</b>	<b>55.4%</b>	<b>409,218</b>	<b>45.1%</b>

During the Period, the operating profit margin of burial services increased to 62.3% from 53.9% in the same period of last year. The increase was mainly attributable to the lower base in the same period of last year when the business of two cemeteries in Shanghai were severely impacted by the Covid-19 outbreak. During the Period, the accumulated and deferred market demand has come up swift and strong. The mature cemeteries within the Group, such as the two cemeteries in Shanghai, have proved a quicker rebound in terms of volume and revenue than those developing cemeteries. Since mature cemeteries have higher operating profit margin, the Group's overall operating profit margin of burial services increased accordingly.

Funeral services were affected by the Covid-19 outbreak last year and certain value-added services and products were unable to be provided in line with social distancing requirements. During the Period, funeral facilities resumed to normal operation and value-added funeral services such as wake service and etiquette farewell services with relatively higher margin were allowed to be performed. In addition, the promotion and acceptance of innovative services, such as body SPA and anti-corrosion, has also enhanced the differentiation of services. The newly established funeral facilities have entered a period of rapid development, and the brand and service content have gradually been accepted by the local market which contributed more in terms of service volume and revenue, together with the overall acceleration of aging population, urbanization process and increased cremation rate in the local markets, which increased the margins of revenue.



# MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, other services segment recorded an operating loss of RMB4.5 million, mainly arising from the continued investments in the research and development of technology and products of cremation machines and Fu Shou Cloud, which are our strategic segments. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening of the rules and regulations on environmental protection by the government. Fu Shou Cloud focuses on the application of technology in combined death care and “Internet + death care” services, which is an important direction of the future development of the Group.

## FINANCE COSTS

Finance costs for the Period consisted of interest expenses of RMB0.5 million (the same period of last year: RMB0.5 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities and other long-term liabilities of RMB2.1 million (the same period of last year: RMB1.6 million).

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

## OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses for the Period mainly include interest income, government grants received, exchange gains and losses, changes in the value of financial assets at fair value, and etc. Among which, interest income and gains from unlisted cash management products during the Period amounted to RMB29.5 million, representing an increase of RMB7.4 million or 33.7% as compared to the same period of last year. Government grants received for the Period was RMB17.1 million, increased by RMB5.7 million or 50.0% compared to the same period of last year.

## INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries are subject to the tax rate of 25% since January 1, 2008.

During the Period, income tax expenses recorded RMB280.0 million, representing an increase of RMB168.7 million or 151.7% as compared to the same period of last year. The increase is the combined effect of increased taxable income in line with the improved sales performance and the withholding tax of approximately RMB51.6 million accrued on the Period’s profit attributable to the owners of the Company. Such withholding tax will be paid out only when relevant profits were remitted from Mainland China subsidiaries to the Hong Kong company.

## PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As mentioned above, our profit and total comprehensive income attributable to owners of the Company for the Period amounted to RMB464.7 million, representing a increase of RMB203.6 million or 78.0% as compared to the same period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS



## CASH FLOW

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

	<b>Six Months Ended</b>	
	<b>June 30, 2023 (RMB'000)</b>	<b>June 30, 2022 (RMB'000)</b>
Net cash generated from (used in)		
— operating activities	<b>784,142*</b>	242,672*
— investing activities	<b>(226,660)*</b>	276,394*
— financing activities	<b>(273,082)</b>	(234,328)
<b>Total</b>	<b>284,400</b>	284,738

\* A classification made by the management does not comply with International Financial Reporting Standards, however, the management considers this classification can better reflect the nature of the Group's business and can make the information disclosed more comparable. The net cash generated from operating activities disclosed in the unaudited financial statements amounted to RMB667.4 million (the same period of last year: RMB240.5 million) and the net cash used in investing activities as disclosed in the unaudited financial statements amounted to RMB109.9 million (the same period of last year: net cash generated of RMB278.5 million). During the Period, an amount of RMB116.8 million (the same period of last year: RMB2.1 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 RMB784.1 million for the Period, representing an increase of RMB541.5 million or 223.1% as compared to the same period of last year, which was primarily due to the increase in revenue during the Period, maintaining our competitiveness as always in generating cash from our operating activities.

Our net cash used in investing activities amounted to RMB226.7 million during the Period. It was primarily due to: (i) net amount of payment of time deposits, entrusted loans and other financial assets of RMB277.4 million; (ii) payment of RMB116.8 million for the acquisition of cemetery lands; (iii) payment of RMB38.5 million for the acquisition of operating rights of subsidiaries, cemeteries and funeral parlors as well as other investments; (iv) payment for building new burial and funeral facilities and capital expenditures for upgrades and maintenance in other cemeteries and funeral facilities, and construction expenditure of the operating system in total of RMB33.3 million; (v) payment of loan to non-controlling shareholders totaling RMB3.7 million; which were partially offset by: (vi) withdrawal of investment in equity fund totalling RMB158.3 million; (vii) repayment of loan from a third party in connection with acquisition of land of a cemetery project totaling RMB48.0 million; (viii) the interests and gains from unlisted cash management products received of RMB23.5 million; and (ix) land-related compensation received of RMB12.8 million.



# MANAGEMENT DISCUSSION AND ANALYSIS

Our net cash used in financing activities amounted to RMB273.1 million during the Period. It was primarily due to: (i) final dividends for 2022 paid to shareholders of the Company of RMB158.7 million; (ii) loan of RMB80.0 million to Yan'an Hongfu to enable it to pay back its loan to original shareholder; (iii) repayment of lease payment and other long-term liabilities of RMB17.5 million; (iv) dividends paid by subsidiaries to their non-controlling shareholders of RMB12.2 million; (v) repayment of non-controlling shareholders' loan of RMB4.4 million; and (vi) interest payment of approximately RMB0.2 million for borrowings.

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2023, we had bank balances and cash of RMB2,226.6 million (December 31, 2022: RMB1,942.2 million), time deposits of RMB43.9 million (December 31, 2022: RMB33.5 million) and unlisted cash management products of RMB760.9 million (December 31, 2022: RMB487.9 million). Such financial assets represent cash management products with relatively lower risk ratings, which are repayable on demand and have maturity dates shorter than six months, or are repayable upon notice of withdrawn by the Company at its discretion. Such assets are highly dispersed and are managed by certain state-owned banks, with expected annualized return rates ranging from 0.10% to 3.80%. To support our expansion strategy, we hold a relatively high level of cash. In order to moderately increase capital returns, under the premise of ensuring safety and liquidity, we have allocated a part of treasury fund to short-term cash management products. Such products are issued and managed by state-owned banks and have clearly-specified expected return rates, maturity dates or are immediately redeemable. Even though the principals and return rates of such products are in theory and as stipulated, determined by reference to the performance of the underlying assets, such as government debt instruments, treasury notes and corporate bonds with high credit ratings, and not guaranteed by the issuing banks, they are secured in substance considering the features and historical performance of such products and present situation of bank system in the PRC. We internally regard our treasury fund put in such cash management products as part of our cash balance, however, from the accounting point of view, they are classified as the financial assets at fair value through profit or loss. In the foreseeable future, we expect to fund our capital expenditure, working capital and other capital requirements from the cash generated from our operations, bank borrowings, and other financing channels. The Board confirmed that the transactions in financial assets for the Period, on a standalone basis or aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

As at June 30, 2023, we did not have any outstanding bank borrowings.

In addition, we had RMB15.5 billion of comprehensive bank credit line as at June 30, 2023.

## GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as at June 30, 2023 was 0.4% (December 31, 2022: 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.

# MANAGEMENT DISCUSSION AND ANALYSIS



## CURRENCY RISK

The Group conducts its businesses in the PRC and its functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed the Group to foreign currency risk. As at June 30, 2023, the amount denominated in RMB, HK\$ and US\$ under the financial assets, time deposits, bank balances and cash accounted for 99.2%, 0.7% and 0.1%, 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 June 2023, the Group entered into an agreement to acquire 100% equity interest in Yan'an Hongfu for a consideration of approximately RMB41 million. Yan'an Hongfu is engaged in the provision of cemetery operation in Yan'an of Shaanxi Province. The acquisition was completed in June 2023.

## SIGNIFICANT INVESTMENTS

As at June 30, 2023, the Group did not hold any significant investments (December 31, 2022: Nil).

## CHARGES ON ASSETS

As at June 30, 2023, the Group did not have any charges over assets (December 31, 2022: Nil).

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at June 30, 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 June 30, 2023, the trustee of the Restricted Share Incentive Scheme held 48,800,000 Shares purchased from the secondary market and the above restricted shares have not been granted to eligible participants.

As at June 30, 2023, we had 2,432 full-time employees (December 31, 2022: 2,460 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 RMB14.4 million as at June 30, 2023.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.60 million sq.m. as at June 30, 2023 (December 31, 2022: approximately 2.62 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 June 30, 2023, we had no contingent liabilities.

## EVENTS AFTER THE REPORTING PERIOD

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

## PROSPECTS

With 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 aim to integrate Internet + technology into various death care business scenarios, enhancing the traditional death care industry. Our goal is to evolve into a comprehensive death care and life technology service provider, delivering premium life services and culturally significant memorial experiences. 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 death care services in the Group's business and the scale of professional design business, and foster the integration of the Internet to improve service contents and accessibility and formulate our plan for the business of death care related consumables. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at a more steady and sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our Shareholders with the best returns.

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK9.06 cents per Share for the six months ended June 30, 2023. The interim dividend will be paid to the Shareholders on Friday, October 27, 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, September 27, 2023.

## OTHER INFORMATION



### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at June 30, 2023, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Directors	Capacity	Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Bai Xiaojiang	Beneficiary of a trust (Note 1)	Long position	96,600,000	4.16%
	Beneficial owner	Long position	10,453,452	0.45%
Mr. Wang Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.16%
	Beneficial owner	Long position	453,452	0.02%
Mr. Tan Leon Li-an	Beneficial owner	Long position	900,000	0.04%
Mr. Lu Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.19%
Mr. Huang James Chih-Cheng	Beneficial owner	Long position	400,000	0.02%

Notes:

1. Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.16% of the issued share capital of the Company. These shares are held indirectly under a trust, of which Mr. Bai Xiaojiang is a beneficiary.
2. Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field, which in turn is interested in approximately 4.16% of the issued share capital of the Company. These shares are held indirectly under a trust, of which Mr. Wang Jisheng is a beneficiary.
3. Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire, which in turn is interested in approximately 1.19% of the issued share capital of the Company.

Save as disclosed above, as at June 30, 2023, neither the Directors nor chief executives of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2023, so far as the Directors or the chief executives were aware, the Shareholders, other than the Directors or chief executives of the Company, who had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company
FSG Holding	Beneficial owner	Long position	320,360,000	13.81%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	320,360,000	13.81%
Perfect Score	Beneficial owner	Long position	483,000,000	20.82%
Alliance Rise	Interest in a controlled corporation (Note 2)	Long Position	483,000,000	20.82%
Zhongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	20.82%
Hongfu	Interest in a controlled corporation (Note 4)	Long position	483,000,000	20.82%
NGO 1	Interest in a controlled corporation (Note 5)	Long position	483,000,000	20.82%
NGO 2	Interest in a controlled corporation (Note 6)	Long position	483,000,000	20.82%
Sunshine Life Insurance Co., Ltd.* (陽光人壽保險股份有限公司)	Beneficial owner (Note 7)	Long position	151,482,000	6.53%
Sunshine Insurance Group Co., Ltd.* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 7)	Long position	151,482,000	6.53%

\* The English translation is for identification purpose only

### Notes:

- Mr. Tan Tize Shune (also known as "Tan Chih Chun"), the father of Mr. Tan Leon Li-an, is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of FSG Holding through (i) being a settlor of a trust, which in turn is interested in the entire issued share capital of Pacific Millennium Investment Corporation, the largest shareholder of FSG Holding; and (ii) being a settlor of another trust, which in turn is interested in the entire issued share capital of Fast Answer Limited, the third largest shareholder of FSG Holding. Together, Mr. Tan Tize Shune is interested in an aggregate of 48.15% of the issued share capital of FSG Holding. Accordingly, Mr. Tan Tize Shune is deemed or taken to be interested in approximately 13.81% of the issued share capital of the Company in which FSG Holding is interested in.

## OTHER INFORMATION



2. Perfect Score is a direct wholly-owned subsidiary of Alliance Rise and Alliance Rise is deemed or taken to be interested in approximately 20.82% of the issued share capital of the Company in which Perfect Score is interested in.
3. Alliance Rise is a direct wholly-owned subsidiary of Zhongfu and Zhongfu is deemed or taken to be interested in approximately 20.82% of the issued share capital of the Company in which Perfect Score is interested in.
4. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu is deemed or taken to be interested in approximately 20.82% of the issued share capital of the Company in which Perfect Score is interested in.
5. Hongfu is owned by NGO 1 as to 50% and NGO 1 is deemed or taken to be interested in approximately 20.82% of the issued share capital of the Company in which Perfect Score is interested in.
6. Hongfu is owned by NGO 2 as to 50% and NGO 2 is deemed or taken to be interested in approximately 20.82% of the issued share capital of the Company in which Perfect Score is interested in.
7. Sunshine Insurance Group Co., Ltd. is interested in approximately 99.99% of the issued share capital of Sunshine Life Insurance Co., Ltd. and therefore Sunshine Insurance Group Co., Ltd. is deemed or taken to be interested in approximately 6.53% of the issued share capital of the Company in which Sunshine Life Insurance Co., Ltd. is interested in.

Save as disclosed above, as at June 30, 2023, so far as the Directors were aware, no other persons (other than the Directors or chief executives) had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on December 3, 2013 and shall be valid and effective for a period of 10 years from the adoption date, subject to early termination by the Company in a general meeting or by the Board. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Share Option Scheme, the Board may offer to grant an option to any directors or employees, or any advisors, consultants, suppliers, customers or Shareholders of any members of the Group.

The Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. At the annual general meeting of the Company held on May 15, 2017, an ordinary resolution was passed, pursuant to which the scheme mandate limit under the Share Option Scheme has been refreshed, allowing the Company to grant share options entitling holders thereof to subscribe for up to 210,000,000 Shares, representing approximately but not exceeding 10% of the issued share capital of the Company as at the date of passing the above resolution. As at each of January 1, 2023 and June 30, 2023, the number of options available for grant under the Share Option Scheme is 210,000,000, representing approximately 9.1% of the total issued Shares.

As at June 30, 2023, no options were outstanding under the Share Option Scheme. As at June 30, 2023, the total number of shares available for issue upon exercise of the options granted under the Share Option Scheme was nil.

No options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the six months ended June 30, 2023.



## OTHER INFORMATION

### RESTRICTED SHARE INCENTIVE SCHEME

The Company adopted the Restricted Share Incentive Scheme on November 29, 2019 and shall be valid and effective for a period of 10 years unless terminated earlier by a resolution of the Board. The purpose of the Restricted Incentive Scheme is to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group. The total number of the Restricted Shares underlying all grants made pursuant to the Restricted Share Incentive Scheme shall not exceed three 3% of the total issued share capital of the Company as at the date of adoption of the Restricted Share Incentive Scheme (i.e. 67,444,812 Shares). As at each of January 1, 2023 and June 30, 2023, the trustee of the Restricted Shares Incentive Scheme held 48,800,000 shares while no Restricted Shares were granted under the Restricted Share Incentive Scheme. As at each of January 1, 2023 and June 30, 2023, the number of Shares available for grant under the Restricted Share Incentive Scheme is 67,444,812 Shares, representing approximately 2.9% of the total issued Shares. As at June 30 2023, the total number of shares available for issue under the Restricted Share Incentive Scheme was 18,644,812, representing approximately 0.8% of the issued Shares as at the date of this report.

No Restricted Share were granted, vested, cancelled or lapsed under the Restricted Share Incentive Scheme during the six months ended June 30, 2023.

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

During the six months ended June 30, 2023, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the six months ended June 30, 2023.

No incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended June 30, 2023.

### CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

During the Period, there is no change in the Directors' information, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### INTERIM DIVIDEND

The Board has declared an interim dividend of HK9.06 cents per Share for the six months ended June 30, 2023 (2022 interim: HK5.64 cents per Share). The interim dividend will be paid to the Shareholders on Friday, October 27, 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, September 27, 2023.



## OTHER INFORMATION

### CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, September 25, 2023 to Wednesday, September 27, 2023, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, September 22, 2023.

### CORPORATE GOVERNANCE

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to achieving high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board is of the opinion that the Company has complied with the code provisions as set out in the CG Code throughout the six months ended June 30, 2023.

### REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2023 have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 – “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The independent review report of the auditor is included in this interim report.

The Audit Committee of the Company, comprising three independent non-executive Directors, namely, Mr. Ho Man (Chairman of the Audit Committee), Mr. Luo Zhuping and Mr. Chen Xin, and one non-executive Director, namely, Mr. Huang James Chih-Cheng, has reviewed together with the management the accounting principles and policies adopted by the Group, and the Group's unaudited interim results for the six months ended June 30, 2023.



# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## TO THE BOARD OF DIRECTORS OF FU SHOU YUAN INTERNATIONAL GROUP LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fu Shou Yuan International Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 31 to 60, which comprise the condensed consolidated statement of financial position as of June 30, 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

August 18, 2023

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

FOR THE SIX MONTHS ENDED JUNE 30, 2023



	NOTES	For the six months ended June 30,	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	4	1,524,542	906,393
Operating expenditures			
Staff costs		(275,063)	(210,595)
Construction costs		(55,073)	(51,144)
Consumed materials and goods		(110,036)	(70,119)
Outsourced service costs		(33,588)	(18,654)
Marketing and sales channel costs		(24,943)	(16,328)
Depreciation and amortisation		(80,886)	(77,659)
Other general operating expenditures		(84,208)	(61,040)
Inventory changes		4,006	8,364
Impairment losses under expected credit loss model, net of reversal	17	(19,593)	—
Profit from operations		845,158	409,218
Other income, gains and losses	6	38,741	34,494
Share of loss of a joint venture		(15,819)	(3,240)
Finance costs	5	(2,594)	(2,214)
Profit before taxation	7	865,486	438,258
Income tax expense	8	(280,006)	(111,258)
Profit and total comprehensive income for the period		585,480	327,000
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Company		464,723	261,099
Non-controlling interests		120,757	65,901
		585,480	327,000
		<b>RMB cents</b>	<b>RMB cents</b>
Earnings per share — Basic	10	20.5	11.5
— Diluted	10	20.5	11.5

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2023

	NOTES	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
<b>Non-current assets</b>			
Property and equipment	11	562,441	571,861
Right-of-use assets	11	109,596	116,711
Investment property		6,509	6,509
Intangible assets	11	268,944	273,614
Goodwill	12	1,129,049	1,091,243
Financial assets at fair value through profit or loss ("FVTPL")	18	38,110	38,110
Deposits paid for acquisition of leasehold land as cemetery assets		21,963	29,117
Cemetery assets	13	2,087,836	1,930,650
Investment in an associate		—	750
Investment in a joint venture	14	44,801	132,960
Restricted deposits		85,839	81,394
Deferred tax assets	15	89,079	81,290
Other long-term assets		5,000	5,000
		<u>4,449,167</u>	<u>4,359,209</u>
<b>Current assets</b>			
Inventories	16	564,072	558,958
Trade and other receivables	17	283,816	423,116
Financial assets at fair value through profit or loss	18	760,940	487,883
Time deposits	19	43,894	33,467
Bank balances and cash	20	2,226,633	1,942,233
Contract assets		10,695	11,025
		<u>3,890,050</u>	<u>3,456,682</u>
<b>Current liabilities</b>			
Trade and other payables	21	706,119	699,530
Lease liabilities		22,936	25,239
Contract liabilities	22	102,391	96,456
Loans from non-controlling shareholders of subsidiaries		28,769	32,958
Dividends payable		542	—
Income tax liabilities		199,017	179,938
		<u>1,059,774</u>	<u>1,034,121</u>
<b>Net current assets</b>		<u>2,830,276</u>	<u>2,422,561</u>
<b>Total assets less current liabilities</b>		<u>7,279,443</u>	<u>6,781,770</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2023

	NOTES	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
<b>Non-current liabilities</b>			
Lease liabilities		31,631	39,464
Contract liabilities	22	485,309	456,237
Deferred tax liabilities	15	184,682	134,215
Other long-term liabilities		49,829	37,850
		<u>751,451</u>	<u>667,766</u>
<b>Net assets</b>		<u><u>6,527,992</u></u>	<u><u>6,114,004</u></u>
<b>Capital and reserves</b>			
Share capital	23	142,148	142,148
Reserves		5,639,617	5,333,610
Equity attributable to owners of the Company		5,781,765	5,475,758
Non-controlling interests		746,227	638,246
<b>Total equity</b>		<u><u>6,527,992</u></u>	<u><u>6,114,004</u></u>

The condensed consolidated financial statements on pages 31 to 60 were approved and authorized for issue by the Board of Directors on August 18, 2023 and are signed on its behalf by:

**Bai Xiaojiang**  
DIRECTOR

**Wang Jisheng**  
DIRECTOR

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2023

	Share capital RMB'000	Treasury Shares RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Subtotal attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
At January 1, 2022 (Audited)	142,179	(259,669)	1,258,234	84,667	193,102	(105,993)	3,730,920	5,043,440	628,880	5,672,320
Profit and total comprehensive income for the period	-	-	-	-	-	-	261,099	261,099	65,901	327,000
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	(3,220)	(3,220)
Dividends recognised as distributions (Note 9)	-	-	(111,225)	-	-	-	-	(111,225)	-	(111,225)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(69,020)	(69,020)
Acquisition of non-controlling interests of a subsidiary	-	-	-	-	-	960	-	960	(38,960)	(38,000)
Shares purchased by trustee and dividend receipt under the restricted share incentive scheme	-	2,338	-	-	-	-	-	2,338	-	2,338
At June 30, 2022 (Unaudited)	142,179	(257,331)	1,147,009	84,667	193,102	(105,033)	3,992,019	5,196,612	583,581	5,780,193
At December 31, 2022 (Audited)	142,148	(254,829)	1,026,187	84,667	205,961	(105,033)	4,376,657	5,475,758	638,246	6,114,004
Profit and total comprehensive income for the period	-	-	-	-	-	-	464,723	464,723	120,757	585,480
Dividends recognised as distributions (Note 9)	-	-	(162,126)	-	-	-	-	(162,126)	-	(162,126)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(12,776)	(12,776)
Shares purchased by trustee and dividend receipt under the restricted share incentive scheme	-	3,410	-	-	-	-	-	3,410	-	3,410
At June 30, 2023 (Unaudited)	142,148	(251,419)	864,061	84,667	205,961	(105,033)	4,841,380	5,781,765	746,227	6,527,992

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



	<b>For the six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	865,486	438,258
Adjustments for:		
Finance costs	2,594	2,214
Interest income	(7,041)	(5,519)
Gain on fair value changes of financial assets at FVTPL	(22,421)	(16,518)
Depreciation of property and equipment	26,505	26,970
Amortization of right-of-use assets	12,421	12,026
Amortization of intangible assets	7,666	6,882
Amortization of cemetery assets	34,294	31,781
Net loss on disposal of property and equipment	87	—
Net gain on disposal of cemetery assets	(9,392)	—
Share of loss of a joint venture	15,819	3,240
Investment loss from acquisition of a subsidiary	393	—
Impairment losses under expected credit loss model, net of reversal	19,593	—
	<u>946,004</u>	<u>499,334</u>
Operating cash flows before movements in working capital	946,004	499,334
Increase in restricted deposits	(4,445)	(14,119)
Decrease (Increase) in cemetery assets and inventories	42,198	(10,726)
Payment for acquisition of leasehold land as cemetery assets	(116,779)	(2,144)
Decrease (Increase) in trade and other receivables	144	(10,651)
Decrease in trade and other payables	(16,067)	(67,731)
Increase in contract liabilities	34,557	28,427
	<u>885,612</u>	<u>422,390</u>
Cash generated from operations	885,612	422,390
Income taxes paid	(218,249)	(181,862)
	<u>667,363</u>	<u>240,528</u>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>667,363</b>	<b>240,528</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of and deposits paid for property and equipment and landscape and facilities	(27,177)	(41,902)
Prepayments and purchase of computer software	(6,163)	(6,573)
Prepayments for concession agreement	—	(3,268)
Proceeds on disposal of property and equipment	498	646
Proceeds on disposal of cemetery assets	12,774	—
Considerations paid for acquisition of subsidiaries	(38,546)	(67,293)
Interest received	7,164	5,722
Received gain from fair value changes of financial assets at FVTPL	16,364	15,609
Withdrawal of time deposits	33,467	285,677
Placement of time deposits	(43,894)	(47,332)
Purchase of financial assets at FVTPL	(594,000)	(250,371)
Withdrawal of financial assets at FVTPL	327,000	351,781
Receipt from liquidation of a partnership	86,000	44,000
Withdrawal of investment in a joint venture	72,340	49,882
Loan to third parties in connection with cemetery projects	—	(58,040)
Receipt of loan to third parties in connection with a cemetery project	48,000	—
Payment on behalf of a non-controlling shareholder of a subsidiary	(3,708)	—
	<u>(109,881)</u>	<u>278,538</u>
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>(109,881)</b>	<b>278,538</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

	<b>For the six months ended June 30,</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>FINANCING ACTIVITIES</b>		
Repayment of loan from a joint venture	<b>(80,000)</b>	—
Repayments of loan from non-controlling shareholders of subsidiaries	<b>(4,410)</b>	(1,960)
Interest paid	<b>(238)</b>	—
Acquisition of non-controlling interests of subsidiaries	—	(40,134)
Dividends paid to non-controlling shareholders of subsidiaries	<b>(12,234)</b>	(69,020)
Dividends paid to owners of the Company	<b>(162,126)</b>	(111,225)
Proceeds for shares purchased by trustee and dividend receipt under the restricted share incentive scheme	<b>3,410</b>	2,338
Repayments of leases liabilities	<b>(16,834)</b>	(14,152)
Repayments of other long-term liabilities	<b>(650)</b>	(175)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(273,082)</b>	(234,328)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>284,400</b>	284,738
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,942,233</b>	1,075,606
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>2,226,633</b>	1,360,344

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 1. GENERAL

Fu Shou Yuan International Group Limited (the “Company”) is a limited company incorporated on January 5, 2012 as an exempted company with limited liability in the Cayman Islands under the Companies Act of the Cayman Islands, and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since December 19, 2013. The Company and its subsidiaries (collectively referred to as the “Group”) are mainly engaged in the provision of burial services, funeral services and other services.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company and its subsidiaries.

## 2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) “Interim Financial Reporting” issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on historical cost basis except for investment property and certain financial instruments, which are measured at fair value at the end of each reporting period.

Other than addition/change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended December 31, 2022.

### Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board, for the first time, which are mandatory effective for the annual period beginning on January 1, 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two model Rules



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### Application of amendments to IFRSs – *continued*

Except as described below, the application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 3.1 *Impacts and changes in accounting policies on application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

#### 3.1.1 *Accounting policies*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

#### 3.1.2 *Transition and summary of effects*

As disclosed in the Group's annual financial statements for the year ended December 31, 2022, the Group previously applied the IAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after January 1, 2022;
- (ii) the Group also, as at January 1, 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group recognised the related deferred tax assets of RMB13,623,000 and deferred tax liabilities of RMB13,422,000 on a gross basis but it has no impact on the retained earnings at the earliest period presented.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### Application of amendments to IFRSs – *continued*

#### 3.2 *Impacts on application of Amendments to IAS 12 Income Taxes International Tax Reform – Pillar Two model Rules*

IAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the “Pillar Two legislation”). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after January 1, 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group’s entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group’s exposure to Pillar Two income taxes in the Group’s annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

#### 3.3 *Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies*

In addition, the Group will apply Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group’s annual period beginning on January 1, 2023 for the preparation of the Group’s consolidated financial statements for the year ending December 31, 2023.

IAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 3. PRINCIPAL ACCOUNTING POLICIES – *continued*

### Application of amendments to IFRSs – *continued*

#### 3.3 *Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies – continued*

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending December 31, 2023.

## 4A. REVENUE FROM CONTRACTS WITH CUSTOMERS

### Disaggregation of revenue

	<b>For the six months ended June 30,</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Geographical markets</b>		
Mainland China	<b>1,524,542</b>	903,275
Overseas	—	3,118
	<b>1,524,542</b>	906,393
<b>Timing of revenue recognition</b>		
A point in time	<b>1,500,144</b>	878,685
Over time	<b>24,398</b>	27,708
<b>Total</b>	<b>1,524,542</b>	906,393

## 4B. OPERATING SEGMENTS

Information reported to the Group's Chief Executive being the Group's chief operating decision maker, for the purpose of making decisions about allocating resources and assessing performance, focuses on the products and services delivered or provided.

The Group's reportable and operating segments are as follows:

- i. Burial services — sale of burial plots and provision of cemetery maintenance services.
- ii. Funeral services — planning of funeral arrangement and interment to the organization and hosting of the funeral.
- iii. Other services — including provision of landscape and garden design services, construction services, and production and sale of cremation machines and the related maintenance services.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 4B. OPERATING SEGMENTS – *continued*

### Segment revenues and results

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the six months ended June 30,</i>						
<i>2023 (unaudited):</i>						
External sales	1,287,173	224,004	13,365	1,524,542	—	1,524,542
Inter-segment sales	—	—	7,021	7,021	(7,021)	—
<b>Total</b>	<b>1,287,173</b>	<b>224,004</b>	<b>20,386</b>	<b>1,531,563</b>	<b>(7,021)</b>	<b>1,524,542</b>
Segment profit (loss)	801,603	46,769	(4,525)	843,847	1,311	845,158
Other income, gains and losses						38,741
Share of loss of a joint venture						(15,819)
Finance costs						(2,594)
Profit before taxation						<b>865,486</b>
<i>For the six months ended June 30,</i>						
<i>2022 (unaudited):</i>						
External sales	727,553	164,460	14,380	906,393	—	906,393
Inter-segment sales	—	—	7,937	7,937	(7,937)	—
<b>Total</b>	<b>727,553</b>	<b>164,460</b>	<b>22,317</b>	<b>914,330</b>	<b>(7,937)</b>	<b>906,393</b>
Segment profit (loss)	391,996	21,936	(4,388)	409,544	(326)	409,218
Other income, gains and losses						34,494
Share of loss of a joint venture						(3,240)
Finance costs						(2,214)
Profit before taxation						<b>438,258</b>

The accounting policies of the operating segments are similar to those of the Group's accounting policies. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of other income, gains and losses, share of loss of a joint venture and finance costs. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 5. FINANCE COSTS

	For the six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest on:		
– loans from non-controlling shareholders of subsidiaries	459	549
– lease liabilities	1,394	1,316
– other long-term liabilities	741	349
Total finance costs	<u>2,594</u>	<u>2,214</u>

## 6. OTHER INCOME, GAINS AND LOSSES

	For the six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest income – bank deposits	7,041	5,519
Gain on fair value changes of financial assets at FVTPL	22,421	16,518
Government grants	17,057	11,371
Net foreign exchange gain (loss)	6,996	(660)
Management service income	3,408	2,902
Investment (loss) income	(393)	9,242
Loss on claims in litigation	–	(17,462)
Net gain on disposal of long-term assets and provision for potential losses	(15,783)	–
Others	(2,006)	7,064
Total	<u>38,741</u>	<u>34,494</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Staff costs, including remuneration of the Directors of the Company (the "Directors"):		
Salaries, wages, bonus and other benefits	258,733	192,670
Retirement benefits scheme contributions	16,330	17,925
Total staff costs	<u>275,063</u>	<u>210,595</u>
Depreciation of property and equipment	26,505	26,970
Amortization of right-of-use assets	12,421	12,026
Amortization of intangible assets	7,666	6,882
Amortization of cemetery assets	<u>34,294</u>	<u>31,781</u>

## 8. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("PRC EIT")		
Current period	236,854	120,232
Under (over) provision in prior periods	474	(2,802)
Deferred tax (Note 15)	42,678	(6,172)
	<u>280,006</u>	<u>111,258</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 9. DIVIDENDS

	For the six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period		
2022 Final — HK\$7.58 cents per share (the same period of last year: 2021 final dividend — HK\$5.64 cents per share)	<u>162,126</u>	<u>111,225</u>

Subsequent to the end of the current interim period, the Directors have declared an interim dividend of Hong Kong Dollar (“HK\$”) 9.06 cents per share (the same period of last year: HK\$5.64 cents per share).

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the six months ended June 30,	
	2023 (Unaudited)	2022 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>464,723</u>	<u>261,099</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,271,063,422</u>	2,271,566,422
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,271,063,422</u>	<u>2,271,566,422</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 11. MOVEMENTS IN PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

During the period, the Group acquired property and equipment of approximately RMB55,296,000 (six months ended June 30, 2022: RMB33,992,000), among which RMB9,794,000 was acquired through acquisition of a subsidiary for business expansion.

During the period, the Group disposed of property and equipment with carrying amount of approximately RMB585,000 (six months ended June 30, 2022: RMB646,000) for cash proceeds of approximately RMB498,000 (six months ended June 30, 2022: RMB646,000) resulting in loss of RMB87,000 on disposal (six months ended June 30, 2022: zero gain on disposal).

As at June 30, 2023, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB80,276,000 (December 31, 2022: RMB74,001,000) had not been obtained.

During the period, the Group entered into several new lease agreements with lease terms ranged from 2 to 5 years. The Group is required to make regular fixed payments to the lessors. Upon lease commencement, the Group recognised right-of-use assets of RMB5,305,000 (six months ended June 30, 2022: RMB5,037,000) and lease liabilities of RMB5,305,000 (six months ended June 30, 2022: RMB5,037,000).

During the period, the Group acquired intangible assets of approximately RMB2,997,000 (six months ended June 30, 2022: RMB13,249,000).

## 12. GOODWILL

The movements of goodwill for the six months ended June 30, 2023 are as follows:

	RMB'000
<hr/>	
COST	
At January 1, 2023 (Audited)	1,091,243
Arising from acquisition of a subsidiary (Note 25)	<u>37,806</u>
At June 30, 2023 (Unaudited)	<u><u>1,129,049</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 13. CEMETERY ASSETS

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Land costs	1,432,771	1,286,573
Landscape facilities	274,597	283,612
Development costs	380,468	360,465
	<u>2,087,836</u>	<u>1,930,650</u>

## 14. INVESTMENT IN A JOINT VENTURE

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Cost of investment in a joint venture	79,820	152,160
Share of loss of a joint venture	(35,019)	(19,200)
	<u>44,801</u>	<u>132,960</u>

Details of each of the Group's joint venture at the end of the reporting period are as follows:

Name of entity <sup>#</sup>	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Cost of investment by the Group		Principal activity
			June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	
			%	%	%	%	RMB'000	RMB'000	
Jiaying Fuji Equity Investment Partnership (Limited Partnership) 嘉興福冀股權投資 合夥企業(有限合夥) ("Jiaying Fuji") (Note)	PRC	PRC	49.89	49.89	40	40	79,820	152,160	Investment holding

<sup>#</sup>: The English name of a joint venture established in the PRC is translated for identification purpose only.

Note: During the period, Jiaying Fuji refunded the investment to the Group and other parties in the same proportion of ownership interest. The Group received RMB72,340,000 and hence, the Group's cost of investment decreased from RMB152,160,000 as at December 31, 2022 to RMB79,820,000 as at June 30, 2023.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 15. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the six months ended June 30, 2023:

	Withholding tax on undistributed profit from the PRC <sup>(note 1)</sup> RMB'000	Contract liabilities RMB'000	Tax losses RMB'000	Loss allowance RMB'000	Fair value adjustment <sup>(note 2)</sup> RMB'000	Right-of- use assets RMB'000	Lease liabilities RMB'000	Total RMB'000
At January 1, 2022 (audited)	–	53,095	19,939	1,575	(135,047)	–	–	(60,438)
Adjustments	–	–	–	–	–	(13,986)	13,986	–
At January 1, 2022 (restated)	–	53,095	19,939	1,575	(135,047)	(13,986)	13,986	(60,438)
(Charge) Credit to profit or loss (Note 8)	–	2,506	1,787	–	1,879	1,275	(1,275)	6,172
Acquisition of a subsidiary	–	–	–	–	(1,704)	–	–	(1,704)
At June 30, 2022 (restated)	–	55,601	21,726	1,575	(134,872)	(12,711)	12,711	(55,970)
At January 1, 2023 (audited)	–	59,560	17,817	1,884	(132,186)	–	–	(52,925)
Adjustments	–	–	–	–	–	(15,698)	15,698	–
At January 1, 2023 (restated)	–	59,560	17,817	1,884	(132,186)	(15,698)	15,698	(52,925)
(Charge) Credit to profit or loss (Note 8)	(51,636)	8,307	(4,025)	3,321	1,154	2,276	(2,075)	(42,678)
At June 30, 2023 (unaudited)	(51,636)	67,867	13,792	5,205	(131,032)	(13,422)	13,623	(95,603)

Note 1: Such withholding tax has been accrued and will be paid out only when relevant profits are remitted from Mainland China subsidiaries to the Hong Kong company.

Note 2: Fair value adjustment mainly refers to revaluation of property and equipment and cemetery assets upon the business combination arose from acquisition of subsidiaries.

For the purpose of presentation in the condensed consolidated statement of financial position, deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same legal entity and tax bureau. The following is the analysis of the deferred tax balances for financial reporting purposes:

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Deferred tax assets	89,079	81,290
Deferred tax liabilities	(184,682)	(134,215)
	<u>(95,603)</u>	<u>(52,925)</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 15. DEFERRED TAXATION – *continued*

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realized or the liability is settled.

The Group has unused tax losses of approximately RMB191,373,000 (December 31, 2022: RMB201,667,000) as at June 30, 2023. Deferred tax assets have been recognised in respect of approximately RMB55,168,000 (December 31, 2022: RMB71,268,000) of such losses as at June 30, 2023. No deferred tax assets of the offshore subsidiaries have been recognised in respect of the remaining approximately RMB29,433,000 (December 31, 2022: RMB36,562,000) as at June 30, 2023 due to the tax exemption. No deferred tax assets of the PRC subsidiaries have been recognised in respect of approximately RMB106,772,000 (December 31, 2022: RMB93,837,000) as at June 30, 2023 due to the unpredictability of future profit streams.

Pursuant to the rules and regulations in the PRC, the unrecognised tax losses at the end of each reporting period will expire in five years. The deductible taxable losses which are not recognised as deferred tax assets will expire in the following years as below:

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
2023	21,818	8,698
2024	19,107	14,695
2025	7,212	19,370
2026	24,117	24,117
2027	26,957	26,957
2028	7,561	—
	<b>106,772</b>	<b>93,837</b>

## 16. INVENTORIES

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
Burial plots	412,423	407,299
Tombstone	84,842	99,744
Others	66,807	51,915
	<b>564,072</b>	<b>558,958</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 17. TRADE AND OTHER RECEIVABLES

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Trade receivables	142,264	142,934
Less: Allowance for credit losses	<u>(18,345)</u>	<u>(5,059)</u>
	<u>123,919</u>	<u>137,875</u>
Other receivables comprise:		
Prepayments and rental deposits on properties	438	2,435
Other service receivables	6,000	6,000
Staff advances	2,018	1,212
Receivables from liquidation of a partnership (Note)	104,000	190,000
Deposits for new projects	6,835	6,773
Prepayments to suppliers	10,571	7,290
Interest receivables	140	263
Loans to third parties in connection with cemetery projects	12,192	60,192
Receivable from deposit return for acquisition of leasehold land	7,154	—
Amounts due from a non-controlling shareholder of a subsidiary	3,708	—
Others	<u>13,148</u>	<u>11,076</u>
	<u>166,204</u>	<u>285,241</u>
Less: Allowance for credit losses	<u>(6,307)</u>	<u>—</u>
	<u>159,897</u>	<u>285,241</u>
	<u>283,816</u>	<u>423,116</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. Up to the end of the Period, the original investment cost of RMB196,000,000 has been received, and the outstanding and pledged receivables amounted to RMB104,000,000 which is collectible in accordance with the relevant agreements at a later stage.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 17. TRADE AND OTHER RECEIVABLES – *continued*

The Group ordinarily demands its customers for full cash settlement prior to or upon delivery of burial services and funeral services. The Group may allow a credit period to its customers for sales of cremation machines, provision of landscape and garden design services, and services offered to local funeral administration authorities. Before accepting any new customer asking for credit period, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

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

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Within one year	70,923	91,255
Over one year but less than two years	25,842	41,944
Over two years but less than three years	26,779	2,810
Over three years but less than four years	278	1,555
Over four years but less than five years	97	311
	<u>123,919</u>	<u>137,875</u>

For trade and other receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customers with good credit rating and credit-impaired, and the remaining customers are estimated collectively by using a provision matrix estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as forward looking information at the period end.

Movement of loss allowance on trade and other receivables for the period ended June 30, 2023:

	Lifetime ECL (not credit impaired) RMB'000	Lifetime ECL (credit impaired) RMB'000	Total RMB'000
At January 1, 2023 (Audited)	5,059	—	5,059
Loss allowance recognized	—	19,593	19,593
Transfer to credit impaired	(3,723)	3,723	—
At June 30, 2023 (Unaudited)	<u>1,336</u>	<u>23,316</u>	<u>24,652</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
Unlisted cash management products (a)	<b>760,940</b>	487,883
Equity investment (b)	<b>38,110</b>	38,110
	<b><u>799,050</u></b>	<u>525,993</u>
Analysed for reporting purposes as:		
Current assets	<b>760,940</b>	487,883
Non-current assets	<b>38,110</b>	38,110
	<b><u>799,050</u></b>	<u>525,993</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

### (a) Unlisted cash management products

During the period, the Group entered into a number of cash management products as part of its treasury management.

Details of the cash management products as at June 30, 2023 are as follows:

Bank	Name of products (Note 1)	Currency	Amount RMB'000	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Tian Tian Li Pu Tian Tong Ying (天添利浦天同盈1號)	RMB	70,163	Redeemable on call after 1 work day on work day	2.51%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan (天添利普惠計劃)	RMB	147,632	Redeemable on call after 1 work day on work day	2.61%	N
Shanghai Pudong Development Bank	Company Tian Li (公司添利23JG5171期)	RMB	30,000	2/2/2024 (Note 2)	0.10% or 3.70%	Y
<b>Subtotal</b>		<b>RMB</b>	<b>247,795</b>			
China Construction Bank	Hui Zhong Ri Sheng (惠眾日申周贖產品)	RMB	103,776	7 days cycle	2.60%-3.10%	N
China Construction Bank	Heng Ying (恒贏(法人版))	RMB	52,284	Redeemable on call after 1 work day on work day	2.90%	N
<b>Subtotal</b>		<b>RMB</b>	<b>156,060</b>			
Bank of Shanghai	Yi Jing Ling (易精靈)	RMB	50,540	Redeemable on call after 1 work day on work day	2.01%	N
<b>Subtotal</b>		<b>RMB</b>	<b>50,540</b>			
Shanghai Rural Commercial Bank	Tian Tian Jin (天天金1號)	RMB	10,021	Redeemable on call after 1 work day on work day	2.00%-3.50%	N
Shanghai Rural Commercial Bank	Xin Zeng Li (鑫增利19026期)	RMB	30,072	Redeemable on call after 180 work days on work day	2.70%-3.60%	N
Shanghai Rural Commercial Bank	Xin Zeng Li (鑫增利(3個月定開))	RMB	35,217	Redeemable on call after 90 work days on work day	2.50%-3.40%	N
Shanghai Rural Commercial Bank	Tian Tian Ying (日鑫天天盈C款)	RMB	30,836	Redeemable on call after 1 work day on work day	2.01%	N
<b>Subtotal</b>		<b>RMB</b>	<b>106,146</b>			
China Industrial Bank	Ji Ji Feng (金雪球穩利季季豐)	RMB	100,196	2/9/2023	3.00%-3.50%	N
China Industrial Bank	Liu Liu Fa (金雪球穩利陸陸發)	RMB	100,203	2/12/2023	3.30%-3.80%	N
<b>Subtotal</b>		<b>RMB</b>	<b>200,399</b>			
<b>Total</b>		<b>RMB</b>	<b>760,940</b>			

Note 1: Investment portfolio of the products includes government debt instruments, treasury notes, corporate bonds and etc.

Note 2: If a knock-out event occurs on an observation date, the maturity date of the product will be adjusted to the third workday after the observation date.

The cash management products have been accounted for as financial assets at FVTPL on initial recognition. In the opinion of the Directors, the fair value of cash management products at June 30, 2023 approximated their carrying amounts.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

### (b) Equity investment

In July 2018, the Group made an equity investment in Changchun Huaxia Cemetery Co., Ltd. (“Changchun Huaxia Cemetery”) in the amount of RMB29,000,000, accounting for 10% of the total equity interests and this equity investment was measured at FVTPL. Changchun Huaxia Cemetery is an unlisted company providing burial services in Changchun City of Jilin Province. In the opinion of the Directors, the fair value was approximately RMB38,110,000 as at June 30, 2023.

## 19. TIME DEPOSITS

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
Time deposits	<u><b>43,894</b></u>	<u>33,467</u>

As at June 30, 2023, the Group had fixed-term deposits of RMB43,894,000 in banks with maturity of six months to one year and fixed interest rate ranging from 0.80% to 5.43% per annum (December 31, 2022: fixed interest rate ranging from 0.8% to 3.74% per annum).

## 20. BANK BALANCES AND CASH

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

	<b>June 30, 2023 (Unaudited)</b>	December 31, 2022 (Audited)
Interest rate per annum		
– RMB	<b>0.20%–2.03%</b>	0.20%–2.03%
– HK\$	<b>0.01%</b>	0.01%
– US\$	<b>0.05%</b>	0.05%

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

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
HK\$	<u><b>21,434</b></u>	<u>21,478</u>
US\$	<u><b>1,522</b></u>	<u>1,075</u>
	<u><b>22,956</b></u>	<u>22,553</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 21. TRADE AND OTHER PAYABLES

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
Trade payables	<u>310,596</u>	<u>308,552</u>
Other payables comprise:		
Advances and deposits from customers	39,937	21,961
Payables for acquisition of property and equipment	604	354
Salary, welfare and bonus payables	111,782	155,339
Other accrued expenses	76,418	55,381
Consideration payable for acquisition of subsidiaries	67,646	71,946
Reimbursed payables due to third parties (Note)	43,377	43,377
Others	<u>55,759</u>	<u>42,620</u>
	<u><u>706,119</u></u>	<u><u>699,530</u></u>

Note: Reimbursed payables due to third parties of RMB43,377,000 were recognized at the date of acquisition of Zhuolu Longhui Tianfu Yuanbaoshan Development Management Co., Ltd., which can be exempted if certain conditions are met in the future.

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

	June 30, 2023 RMB'000 (Unaudited)	December 31, 2022 RMB'000 (Audited)
0–90 days	59,308	96,462
91–180 days	39,166	27,746
181–365 days	65,122	35,670
Over 365 days	<u>147,000</u>	<u>148,674</u>
	<u><u>310,596</u></u>	<u><u>308,552</u></u>

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

## 22. CONTRACT LIABILITIES

Contract liabilities represent the portion of the revenue generated from the provision of burial and funeral services that has not been earned as revenue in accordance with the revenue recognition policy and the nature of the business.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 23. SHARE CAPITAL

Issued and fully paid:

	Number of shares	Amount US\$	Share capital RMB'000
At January 1, 2023 (Audited)	2,319,863,422	23,198,634	142,148
Repurchase and cancellation of shares	—	—	—
At June 30, 2023 (Unaudited)	<u>2,319,863,422</u>	<u>23,198,634</u>	<u>142,148</u>

All the shares issued by the Company ranked pari passu in all respects.

## 24. SHARE BASED COMPENSATION

### Restricted Share Incentive Scheme

The Company has adopted a restricted share incentive scheme on November 29, 2019 to provide incentive or reward to eligible participants including the Directors and employees for their contribution or potential contribution to the Company. The Company entered into a trust deed with the Computershare Hong Kong Trustees Limited as the trustee for the administration of the scheme.

As at June 30, 2023, there were 48,800,000 treasury shares held through the trustee of the restricted share incentive scheme, and no such shares have been granted during the period.

## 25. ACQUISITION OF A SUBSIDIARY

### Acquisition of 100% equity interest in Yan'an Hongfu Cemetery Co., Ltd. ("Yan'an Hongfu")

In June 2023, Shanghai Fu Shou Yuan Industry Group Co., Ltd. ("Shanghai Fu Shou Yuan") entered into an agreement with Jiaying Fuji to acquire equity interest in Yan'an Hongfu for a total consideration of RMB41,000,000. The acquisition has been completed in June 2023 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB37,806,000. Yan'an Hongfu is mainly engaged in burial service and was acquired as part of the Group's expansion. As at June 30, 2023, the Group has acquired 100% equity interest in Yan'an Hongfu.

### Consideration transferred

	RMB'000
Cash consideration paid in 2023	<u>41,000</u>

As at June 30, 2023, the Group has fully paid the consideration to acquire Yan'an Hongfu.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 25. ACQUISITION OF A SUBSIDIARY – *continued*

### Assets acquired and liabilities recognized at the date of acquisition

	RMB'000
Property and equipment	9,794
Cemetery assets	85,576
Trade and other receivables	201
Bank balances and cash	6,397
Salary, welfare and bonus payables	(81)
Trade and other payables	(86,355)
Contract liabilities	(450)
Other long-term liabilities	(11,888)
Net assets acquired	<u>3,194</u>

### Goodwill arising on acquisition

	RMB'000
Consideration transferred	41,000
Less: recognized amounts of net assets acquired	<u>(3,194)</u>
Total	<u>37,806</u>

Goodwill arose in the acquisition of Yan'an Hongfu because the consideration for the combination effectively included amounts in relation to the future business growth of Yan'an Hongfu. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 25. ACQUISITION OF A SUBSIDIARY – *continued*

### Net cash outflow on acquisition of Yan'an Hongfu

	RMB'000
Consideration paid in cash	41,000
Less: cash and cash equivalents acquired	<u>(6,397)</u>
Total	<u><u>34,603</u></u>

### Impact of acquisition on the results of the Group

Included in the profit for the period is a loss of approximately RMB125,000 which is attributable to Yan'an Hongfu.

Had the acquisition been completed on January 1, 2023, total Group revenue for the period would have been RMB1,525,693,000 and profit for the period would have been RMB583,555,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2023, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Yan'an Hongfu been acquired at the beginning of the current year, the Directors have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis – *continued*

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	June 30, 2023 (unaudited)	December 31, 2022 (audited)		
Financial assets at FVTPL	Cash management products in PRC with fair value of RMB760,940,000	Cash management products in PRC with fair value of RMB487,883,000	Level 3	Discounted cash flows  Key unobservable input are:  (1) Expected return;  (2) Risk-adjusted discount rate (Note)
Unquoted equity investment	10% equity investment in Changchun Huaxia Cemetery of RMB38,110,000	10% equity investment in Changchun Huaxia Cemetery of RMB38,110,000	Level 3	Income approach  Key unobservable inputs are:  (1) Long term revenue growth rates, taking into management's experience and knowledge of market conditions of the specific industry;  (2) Weighted average cost of capital

Note: The Directors consider that the impact of the fluctuation in expected discount rate of the cash management products was insignificant as the cash management products have short maturities, and therefore no sensitivity analysis is presented.

There is no transfer among Level 1, 2 and 3 during the period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023



## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – *continued*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis – *continued*

### *Reconciliation of Level 3 fair value measurements of financial assets*

	<b>Financial assets at FVTPL RMB'000</b>
At January 1, 2022 (audited)	1,004,083
Total gains in profit or loss	16,518
Purchase	250,371
Settlement	<u>(668,299)</u>
At June 30, 2022 (unaudited)	<u>602,673</u>
At January 1, 2023 (audited)	<b>487,883</b>
Total gains in profit or loss	<b>22,421</b>
Purchase	<b>594,000</b>
Settlement	<u><b>(343,364)</b></u>
At June 30, 2023 (unaudited)	<u><b>760,940</b></u>

Total gains for the period included in profit of RMB22,421,000 relates to financial assets designated as FVTPL held at the end of current reporting period (for the six-month ended June 30, 2022: a gain of RMB16,518,000). Fair value gains on financial assets designated as FVTPL are included in 'other income, gains and losses'.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

## 27. CONTINGENCIES AND COMMITMENTS

### Capital and other commitments

	<b>June 30, 2023 RMB'000 (Unaudited)</b>	December 31, 2022 RMB'000 (Audited)
Acquisition of property and equipment and cemetery assets:		
— contracted for but not provided	<u>14,409</u>	<u>25,366</u>

# DEFINITIONS AND GLOSSARY



“Alliance Rise”	Alliance Rise Limited, a limited liability company incorporated in Hongkong on May 8, 2015, one of the Company’s Shareholders and a direct wholly-owned subsidiary of Zhongfu
“ASP”	average unit selling price
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Changchun Huaxia Cemetery”	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of 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
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”, “our 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
“FSG Holding”	FSG Holding Corporation, a company incorporated in BVI on December 6, 2011 and one of the Shareholders
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct owned subsidiary of the Company
“Grand Fire”	Grand Fire Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Mr. Lu Hesheng (陸鶴生), one of the non-executive Directors of the Company



## DEFINITIONS AND GLOSSARY

“Group”, “our Group”, “us”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“Heze Fuluyuan”	Heze Fuluyuan Cemetery Management Co., Ltd.* (菏澤福祿源公墓管理有限公司), a limited company established under the laws of the PRC and a non-wholly owned subsidiary of the Company
“Hongfu”	Shanghai Hongfu Investment Development Co., Ltd.* (上海鴻福投資發展有限公司), a limited liability company established in the PRC on November 28, 2000 and owned as to 50% by NGO 1 and 50% by NGO 2, one of the Company’s Shareholders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NGO 1”	Shanghai Zhongmin Elderly Affairs Development Service Centre* (上海中民老齡事業開發服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on facility developments, and one of the Company’s indirect Shareholders
“NGO 2”	Shanghai Zhongmin Elderly Affairs Consultancy Service Centre* (上海中民老齡事業諮詢服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Qingpu Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on advisory services, and one of the Company’s indirect Shareholders
“Peaceful Field”	Peaceful Field Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Mr. Wang Jisheng, one of the executives Directors of the Company
“Perfect Score”	Perfect Score Group Limited, a limited liability company incorporated in BVI on June 18, 2015, one of the Company’s Shareholders and a direct wholly-owned subsidiary of Zhongfu
“Period”	the six months ended June 30, 2023

# DEFINITIONS AND GLOSSARY



“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the Company with effected from November 29, 2019
“Restricted Shares”	any share(s) that may be offered by the Company to any selected participant pursuant to the Restricted Share Incentive Scheme
“RMB”	Renminbi yuan, the lawful currency of the PRC
“same period of last year”	the six months ended June 30, 2022
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Shanghai Fu Shou Yuan”	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Group Co., Ltd.* (上海福壽園實業集團有限公司), formerly known as Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in the share capital of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“Shareholder(s)”	holder(s) of the Share(s)
“sq.m.”	square meters
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“United States”	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
“Wish and Catch”	Wish and Catch Limited, a limited liability company incorporated in BVI on June 28, 2013, wholly-owned by Mr. Bai Xiaojiang, the chairman and one of the executive Directors
“Yan’an Hongfu”	a cemetery in Yan’an of Shaanxi Province and operated by Yan’an Hongfu Cemetery Co., Ltd* (延安洪福公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company



## DEFINITIONS AND GLOSSARY

- “Zhongfu” China Zhongfu Industrial Group Limited\* (中國中福實業集團有限公司), a limited liability company established in the PRC on July 15, 1985 and directly wholly-owned by Hongfu, and one of the Company’s Shareholders
- “%” 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.