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Fu Shou Yuan International Group Limited

福壽園國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1448)

DISCLOSEABLE TRANSACTION

ACQUISITION OF 100% EQUITY INTEREST IN HARBIN MINGXIYUAN CEMETERY CO., LTD.

INVESTMENT AGREEMENT

The Board is pleased to announce that on July 31, 2020, the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Vendors in relation to the Acquisition, pursuant to which the Purchaser will acquire 100% equity interest in the Target Company at the consideration of approximately RMB450 million.

LISTING RULES IMPLICATIONS

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on July 31, 2020, the Purchaser, being an indirect wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Vendors in relation to the Acquisition, pursuant to which the Purchaser will acquire 100% equity interest in the Target Company at the consideration of approximately RMB450 million.

THE INVESTMENT AGREEMENT

The principal terms of the Investment Agreement are set out below:

Date: July 31, 2020

Parties

Purchaser: Shanghai Fu Shou Yuan Industry Group Co., Ltd.* (上海福壽園實業集團有限公司), an indirect wholly-owned subsidiary of the Company

Vendors: Deng Xiaobo (鄧小波), Jiao Jiao (焦姣), Jiao Boxin (焦柏信), Jiao Fuling (焦富令), Zhu Guoru (朱國儒) and Wang Min (王敏), altogether holding 100% equity interest in the Target Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors are independent third parties of the Company and its connected persons as defined under the Listing Rules.

Subject of the Acquisition

Pursuant to the Investment Agreement, the Purchaser will acquire 100% equity interest in the Target Company from the Vendors.

As at the date of this announcement, the registered capital of the Target Company is RMB10 million, which has been fully paid-up.

Consideration of the Acquisition

The Consideration for the Acquisition is approximately RMB450 million. The Consideration was arrived at after arm's length negotiations among the parties to the Investment Agreement, and after considering primarily, among other things, the Target Company's historical financial performance, its location and its area of the cemetery assets, and its market competitiveness and recognition. Other comparable acquisition opportunities which suggest the agreed consideration is in line with prevailing market conditions, as well as its profitability potentials and synergy effect benefiting the Purchaser were also considered. The Acquisition is intended to be funded by the Company's internal sources of funds.

Payment of part of the Consideration in a sum of RMB20 million to be made to one of the Vendors, Deng Xiaobo (鄧小波), by the Purchaser pursuant to the Investment Agreement is deferred to one year after the entering of the Investment Agreement, so as to indemnify the Purchaser from all the losses incurred from any potential debt and legal risks that may arise outside the representations and warranties undertaken by the Vendors under the Investment Agreement.

The Directors (including the independent non-executive Directors) consider that the Investment Agreement was entered into on normal commercial terms and that such terms and the Consideration payable by the Purchaser are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Completion of the Acquisition

Acquisition shall be completed on the date on which the industrial and commercial registration in relation to the Acquisition is completed and the Purchaser is registered to become the 100% shareholder of the Target Company.

Upon Completion, the Company will, through the Purchaser become interested in 100% equity interest of the Target Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company established on September 29, 2000 under the laws of the PRC, which is owned as to 100% in aggregate by the Vendors as at the date of the Investment Agreement. The principal business of the Target Company comprises storage of cremains, burial services and sale of funeral products. Based on the audited financial results of the Target Company as of December 31, 2019, the total assets of the Target Company is approximately RMB37.1 million.

The Target Company occupies a total site area of approximately 841.4 mu (approximately 560,374.7 sq.m) for the purpose of cemetery development and forest zone, of which approximately 524 mu (approximately 348,879 sq.m) has obtained the necessary land approval. As such, long term development can be enhanced through continuous acquisition of granted land.

The Target Company is one of the market leaders in terms of market shares for its principal business in Harbin, Heilongjiang Province, the PRC. The Target Company commenced cemetery operation in October 2003.

Set out below are the audited financial results of the Target Company for the two financial years ended December 31, 2018 and December 31, 2019 prepared in accordance with the CASBE and the unaudited financial results of the Target Company for the five months ended May 31, 2020:

	For the year ended		For the five
	December 31,	December 31,	months ended
	2018	2019	May 31,
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Revenue	83,815	89,297	3,734
Net profit/(loss) before taxation and extraordinary items	74,102	63,066	(329)
Net profit/(loss) after taxation and extraordinary items	<u>55,504</u>	<u>47,208</u>	<u>(506)</u>
	As at	As at	As at
	December 31,	December 31,	May 31,
	2018	2019	2020
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	<u>35,188</u>	<u>37,089</u>	<u>31,993</u>
Net assets	<u>27,953</u>	<u>29,449</u>	<u>28,943</u>

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents the Group's first presence in Heilongjiang Province and enables the Group to expand its business geographically. As such, the Acquisition represents a strategic opportunity of the Group for the following reasons: (i) the Target Company retains a certain degree of market recognition and sales volume; (ii) the massive land reserve held by the Target Company may be used for cemetery development; (iii) the cemetery owned by the Target Company is located at a prime location, being approximately 60 km away from the center of Harbin and located at the East side of Erlong Mountain (二龍山), an AAAA tourist attraction of China; (iv) the market potential and prospects are promising in general, given the aging population and the more mature funeral market in the locality. The Acquisition provides the Company with yet another market presence with geographic significance in Northeast China and will expedite the Group's expansion plan to tap into key provinces and capital cities to achieve synergy and provide guidance to other cemeteries.

Leveraging on the brand and the highly integrated management of the Group and taking into account the enhancement the Group can bring to the Target Company and the synergies that the Group can accomplish given the nation-wide operations, the Company believes the Acquisition will offer the Group an expedient entry into the Harbin funeral and burial market at a reasonable cost.

The Board believes that the Group's operational experience and expertise in the mid-to-premium death care service market, together with the local connection of the Target Company, will create synergy and enhance the Group's overall financial capacity and provide the Group with stable growth in cash flow and profit in the long run. This is in line with the Group's strategy of reinforcing its market position and improving its core competitiveness nationwide and is in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE GROUP AND THE PARTIES OF THE INVESTMENT AGREEMENT

The Group is principally engaged in the sale of burial plots, provision of funeral and cemetery maintenance services.

The Purchaser is an indirect wholly-owned subsidiary of the Company, which is principally engaged in cemetery operation and equity investments.

Each of the Vendors is an independent third party of the Company and all of them holds in aggregate 100% equity interest of the Target Company.

LISTING RULES IMPLICATIONS

As the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“Acquisition”	the acquisition by the Purchaser from the Vendors of 100% equity interest in the Target Company pursuant to the Investment Agreement
“Board”	the board of Directors
“CASBE”	China Accounting Standards for Business Enterprises

“Company”	Fu Shou Yuan International Group Limited (福壽園國際集團有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange
“Completion”	completion of the Acquisition, which is expected to take place on or around August 31, 2020, subject to the satisfaction of the conditions precedents
“Consideration”	the consideration of approximately RMB450 million for the Acquisition
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	individual(s) or company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any connected persons (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Investment Agreement”	an investment agreement to be entered into among the Purchaser and the Vendors on July 31, 2020 in respect of the Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Shanghai Fu Shou Yuan Industry Group Co., Ltd.* (上海福壽園實業集團有限公司), a company established in the PRC on February 21, 1994 and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司), a limited liability company established under the laws of the PRC, whose registered capital was owned by the Vendors prior to the Acquisition

“Vendors” collectively, Deng Xiaobo (鄧小波), Jiao Jiao (焦姣), Jiao Boxin (焦柏信), Jiao Fuling (焦富令), Zhu Guoru (朱國儒) and Wang Min (王敏), who owned as to 48.3%, 15%, 5%, 25%, 5% and 1.7% of the equity interest of the Target Company, respectively

“%” per cent.

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

Hong Kong, July 31, 2020

As at the date of this announcement, the executive Directors are Mr. Bai Xiaojiang, Mr. Tan Leon Li-an and Mr. Wang Jisheng; the non-executive Directors are Mr. Ma Xiang, Mr. Lu Hesheng and Mr. Huang James Chih-cheng; and the independent non-executive Directors are Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Liang Yanjun.

* *Denotes English translation of the name of a Chinese company and is provided for identification purpose only.*