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ANXIAN YUAN CHINA HOLDINGS LIMITED

安賢園中國控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0922)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The Board of the Company announces the unaudited condensed consolidated results of the Group for the six months ended 30 September 2017 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six months ended 30 September 2017

		Unaudited Six months ended 30 September	
	<i>Notes</i>	2017	2016
		HK\$'000	HK\$'000
REVENUE	4	95,181	74,424
Cost of sales		<u>(22,462)</u>	<u>(19,302)</u>
Gross profit		72,719	55,122
Other income and gains	4	1,294	5,479
Selling and distribution expenses		(9,248)	(7,320)
Administrative expenses		(39,328)	(30,782)
Finance costs	6	(9,771)	(8,461)
Share of profits and losses of an associate		<u>–</u>	<u>(5)</u>
PROFIT BEFORE TAX	5	15,666	14,033
Income tax expense	7	(9,583)	(2,595)
PROFIT FOR THE PERIOD		<u>6,083</u>	<u>11,438</u>

* For identification purposes only

		Unaudited Six months ended 30 September	
		2017	2016
	Notes	HK\$'000	HK\$'000
Attributable to:			
Owners of the parent		5,752	11,486
Non-controlling interests		<u>331</u>	<u>(48)</u>
		<u>6,083</u>	<u>11,438</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>HK cents</i>)			
– For profit for the period	8	<u>0.08</u>	<u>0.17</u>
Diluted (<i>HK cents</i>)			
– For profit for the period	8	<u>0.08</u>	<u>0.16</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Six months ended 30 September 2017*

	Unaudited	
	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>6,083</u>	<u>11,438</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>29,305</u>	<u>(21,258)</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	<u>29,305</u>	<u>(21,258)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>35,388</u>	<u>(9,820)</u>
Attributable to:		
Owners of the parent	<u>32,987</u>	<u>(8,160)</u>
Non-controlling interests	<u>2,401</u>	<u>(1,660)</u>
	<u>35,388</u>	<u>(9,820)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2017

		Unaudited 30 September 2017 <i>HK\$'000</i>	Audited 31 March 2017 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		100,931	98,641
Deposits for acquisition of property, plant and equipment	13	10,175	–
Investment properties		382	512
Intangible assets	9	459,777	441,439
Goodwill		13,154	12,589
Investment in an associate		4,473	4,281
Available-for-sale investments		2,354	2,253
Cemetery assets	10	235,244	229,857
		<hr/>	<hr/>
Total non-current assets		826,490	789,572
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories	11	201,959	182,578
Trade receivables	12	1,542	2,451
Prepayments, deposits and other receivables	13	69,889	70,335
Cash and cash equivalents		31,006	110,140
		<hr/>	<hr/>
Total current assets		304,396	365,504
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	14	49,659	47,980
Other payables and accruals		33,078	44,021
Deferred income	15	3,202	2,974
Interest-bearing bank and other borrowings		49,094	165,476
Amount due to non-controlling shareholders		8,187	7,836
Liability component of convertible bonds		–	48,477
Derivative component of convertible bonds	16	–	1,000
Tax payable		14,249	12,913
		<hr/>	<hr/>
Total current liabilities		157,469	330,677
		<hr/>	<hr/>
NET CURRENT ASSETS		146,927	34,827
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		973,417	824,399
		<hr/>	<hr/>

		Unaudited 30 September 2017 <i>Notes</i> <i>HK\$'000</i>	Audited 31 March 2017 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		247,694	141,497
Deferred income	15	13,654	12,838
Deferred tax liabilities		122,406	115,789
		<hr/>	<hr/>
Total non-current liabilities		383,754	270,124
		<hr/>	<hr/>
Net assets		589,663	554,275
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		543,445	543,445
Reserves		(1,594)	(34,581)
		<hr/>	<hr/>
		541,851	508,864
Non-controlling interests		47,812	45,411
		<hr/>	<hr/>
Total equity		589,663	554,275
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017

1. CORPORATE AND GROUP INFORMATION

Anxian Yuan China Holdings Limited is a limited liability company incorporated in Bermuda and domiciled in Hong Kong. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's principal place of business in Hong Kong is 9th Floor, Cheuk Nang Plaza, 250 Hennessy Road, Wanchai, Hong Kong. During the Period, the Group principally engaged in the cemetery business in the PRC.

In the opinion of the Directors, the controlling shareholder of the Company is Mr. Shi Hua.

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the Period have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by HKICPA and with the application disclosure requirements of the Listing Rules.

These financial statements have been prepared under the historical cost convention. They are presented in HK\$ and all values are rounded to the nearest thousand except when otherwise indicated.

These financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2017.

2.2 NEW AND REVISED HKFRSS ADOPTED BY THE GROUP

Except as described below, the accounting policies used in the unaudited interim condensed consolidated financial statements for the Period are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017. In the Period, the Group has applied for the first time the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's unaudited interim condensed consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The amendment requires entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its unaudited interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 March 2018.

The application of the above amendments to HKFRSs in the Period has had no material effect on the amounts reported in the unaudited interim condensed consolidated financial statements and/or disclosures set out in these financial statements.

Amendments to HKAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle – 2014-2016

Amendments to HKFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in HKFRS 12

The amendments clarify that the disclosure requirements in HKFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The adoption of the amendments has no impact on these unaudited interim condensed consolidated financial statements as the Group has no these interests that is classified as held for sale.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the cemetery business. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

(a) Revenue from external customers

	Unaudited Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
Mainland China	95,181	74,424

The revenue information above is based on the location of the customers.

(b) Non-current assets

	Unaudited As at 30 September 2017 HK\$'000	Audited As at 31 March 2017 HK\$'000
Hong Kong	620	749
Mainland China	823,516	786,570
	824,136	787,319

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

No revenue from a single customer accounted for 10% or more of the Group's revenue during the six months ended 30 September 2017 and 30 September 2016.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of products sold, after allowances for returns and trade discounts; and the value of services rendered during the Period.

An analysis of revenue, other income and gains is as follows:

	Unaudited Six months ended 30 September 2017 HK\$'000	2016 HK\$'000
Revenue		
Sales of tombs and niches	84,550	63,849
Management fee income	1,398	1,370
Burial service	8,787	8,848
Sales of funeral supplies	446	357
	95,181	74,424
Other income and gains		
Gain on disposal of items of property, plant and equipment	188	12
Bank interest income	106	55
Fair value gain of derivative component of convertible bonds (note 16)	1,000	5,100
Others	–	312
	1,294	5,479

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Unaudited	
	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Cost of inventories sold	15,948	13,116
Cost of services provided	2,063	1,988
Employee benefit expense (excluding directors' and chief executive's remuneration):		
– Wages and salaries	18,058	15,042
Amortisation of intangible assets (<i>note 9</i>)*	1,446	1,318
Amortisation of cemetery assets (<i>note 10</i>)*	3,010	2,880
Auditors' remuneration	641	600
Depreciation		
– Property, plant and equipment	4,713	4,522
– Investment properties	150	152
Foreign exchange differences, net	(72)	(236)
Minimum lease payments under operating leases	2,011	1,693

* *The amortisation of intangible assets and cemetery assets for the Period are included in "Cost of sales" in the condensed consolidated statement of profit or loss.*

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Interest on interest-bearing bank borrowings (including convertible bonds)	16,130	16,303
Total interest expense	16,130	16,303
Less: Interest capitalised	(6,359)	(7,842)
	9,771	8,461

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in that jurisdiction.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Period.

Provision for Mainland China current income tax is based on the statutory rate of 25% (2016: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

The major components of income tax expense are as follows:

	Unaudited	
	Six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
Current tax		
Income tax in the PRC for the period	7,621	4,933
Reversal of overprovision in prior years	–	(4,006)
Deferred tax	1,962	1,668
Total tax charge for the period	9,583	2,595

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 6,934,453,000 (2016: 6,934,453,000) in issue during the Period.

The calculation of the diluted earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds and fair value gain on derivative component of convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the Period in respect of a dilution as the impact of convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	Unaudited Six months ended 30 September	
	2017 HK\$'000	2016 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	5,752	11,486
Interest on convertible bonds (<i>note 16</i>)	2,873	5,184
Less: Fair value gain on the derivative component of convertible bonds (<i>note 4</i>)	(1,000)	(5,100)
Profit attributable to ordinary equity holders of the parent, before the effect of convertible bonds	7,625*	11,570
	Unaudited Six months ended 30 September	
	2017 Number of shares ('000)	2016 Number of shares ('000)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	6,934,453	6,934,453
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	13,282
Convertible bonds	42,079	333,889
	6,976,532*	7,281,624

* *Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the Period and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the Period of HK\$5,752,000 and the weighted average number of ordinary shares of 6,934,453,000 in issue during the Period.*

9. INTANGIBLE ASSETS

HK\$'000

Cost:

Audited

At 1 April 2016

488,373

Exchange realignment

(30,002)

At 31 March 2017

458,371

Unaudited

At 1 April 2017

458,371

Exchange realignment

20,568

At 30 September 2017

478,939

Accumulated amortisation:

Audited

At 1 April 2016

(15,284)

Charge for the year

(2,643)

Exchange realignment

995

At 31 March 2017

(16,932)

Unaudited

At 1 April 2017

(16,932)

Charge for the Period

(1,446)

Exchange realignment

(784)

At 30 September 2017

(19,162)

Net carrying amount:

At 31 March 2017 (Audited)

441,439

At 30 September 2017 (Unaudited)

459,777

Intangible assets represent cemetery operating licences, which were acquired by business combination of Zhejiang Anxian Yuan in the year of 2010 and of Yin Chuan Fu Shou Yuan and Zunyi Dashenshan in the year ended 31 March 2016.

10. CEMETERY ASSETS

	Land costs <i>HK\$'000</i>	Landscape facilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
Audited			
At 1 April 2016	27,264	215,202	242,466
Additions	–	34,823	34,823
Transfer to inventories	(399)	(4,281)	(4,680)
Exchange realignment	(1,675)	(13,294)	(14,969)
	<u>25,190</u>	<u>232,450</u>	<u>257,640</u>
At 31 March 2017			
Unaudited			
At 1 April 2017	25,190	232,450	257,640
Additions	–	896	896
Transfer to inventories	(523)	(2,457)	(2,980)
Exchange realignment	1,131	10,866	11,997
	<u>25,798</u>	<u>241,755</u>	<u>267,553</u>
At 30 September 2017			
Accumulated amortisation:			
Audited			
At 1 April 2016	(128)	(23,864)	(23,992)
Provided for the year	(500)	(5,230)	(5,730)
Eliminated on transfer	62	279	341
Exchange realignment	19	1,579	1,598
	<u>(547)</u>	<u>(27,236)</u>	<u>(27,783)</u>
At 31 March 2017			
Unaudited			
At 1 April 2017	(547)	(27,236)	(27,783)
Provided for the Period	(250)	(2,760)	(3,010)
Eliminated on transfer	83	138	221
Exchange realignment	(29)	(1,708)	(1,737)
	<u>(743)</u>	<u>(31,566)</u>	<u>(32,309)</u>
At 30 September 2017			
Carrying value:			
At 31 March 2017 (Audited)	<u>24,643</u>	<u>205,214</u>	<u>229,857</u>
At 30 September 2017 (Unaudited)	<u>25,055</u>	<u>210,189</u>	<u>235,244</u>

Cemetery assets mainly represent land costs and the construction cost of public facilities in the cemetery.

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

11. INVENTORIES

	Unaudited As at 30 September 2017 <i>HK\$'000</i>	Audited As at 31 March 2017 <i>HK\$'000</i>
Inventories		
– Tombs	<u>201,959</u>	<u>182,578</u>

As at 30 September 2017, inventories of approximately HK\$166,867,000 (31 March 2017: HK\$151,355,000) are expected to be recovered in more than one year.

12. TRADE RECEIVABLES

	Unaudited As at 30 September 2017 <i>HK\$'000</i>	Audited As at 31 March 2017 <i>HK\$'000</i>
Trade receivables	<u>1,542</u>	<u>2,451</u>

The Group's trading terms with its customers are mainly on credit, except for certain new customers, where payment in advance is required. The average trade credit period ranges from 30 to 365 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk.

Trade receivables are unsecured and non-interest-bearing.

An aging analysis of the trade receivables as at the end of the Period, based on the invoice date and net of provisions, is as follows:

	Unaudited As at 30 September 2017 <i>HK\$'000</i>	Audited As at 31 March 2017 <i>HK\$'000</i>
61 to 90 days	<u>1,542</u>	<u>2,451</u>

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Unaudited As at 30 September 2017 <i>HK\$'000</i>	Audited As at 31 March 2017 <i>HK\$'000</i>
Neither past due nor impaired	<u>1,542</u>	<u>2,451</u>

Management believes that no impairment allowance is necessary in respect of these balances as the balances are considered to be fully recoverable.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Unaudited As at 30 September 2017 HK\$'000	Audited As at 31 March 2017 HK\$'000
Prepayments	26,496	14,610
Deposits and other receivables	129,094	131,206
	155,590	145,816
Provision for impairment loss	(75,526)	(75,481)
	80,064	70,335
	Unaudited As at 30 September 2017 HK\$'000	Audited As at 31 March 2017 HK\$'000
Analysed into:		
Current	69,889	70,335
Non-current	10,175	–
	80,064	70,335

As at 30 September 2017, other receivable with a carrying amount of HK\$41,193,000 represented earnest money paid to the shareholders of Jining Yongan Charity Business Co., Ltd. (“Jining Yongan”, a company with limited liability established in the PRC) for a proposed acquisition of the entire equity of Jining Yongan (the “Jining Acquisition”), refundable from the shareholders of Jining Yongan as the Jining Acquisition did not proceed. The Directors are of the view that impairment provision is not required as refund of the earnest money is secured by the entire equity of Jining Yongan, among which, 40% of the equity interest was pledged to the Group under registration in local Administration Bureau for Industry and Commerce, and the transfer of 60% of the equity interest to Shanghai Anxian Yuan, a subsidiary of the Group. In the opinion of the Directors, such equity shares were only for guarantee purpose. The latter is for protection of the Group in respect of the collection of the earnest money refundable, and the Group did not participate in any operating or decision making of Jining Yongan. The amount is non-interest-bearing. Other receivable with a carrying amount of HK\$10,592,000 represented a loan provided to one of the shareholders of Jining Yongan. The loan is interest-free, repayable on demand, and secured by the 60% of the equity interest of Jining Yongan transferred to Shanghai Anxian Yuan as set out above.

Except for the above earnest money and loan, the Group did not hold any collateral in respect of these balances.

Except for those amounts with provision for impairment as set out above, the Directors consider that the fair values of deposits and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because of the short maturity periods on their inception.

All deposits and other receivables that are neither individually nor collectively considered to be impaired are neither past due nor impaired and are due from counterparties for whom there was no recent history of default. Management considers that deposits and other receivables that were neither past due nor impaired for each of the reporting dates are of good credit quality.

The movements in the provision for impairment loss on other receivables are as follows:

	Unaudited Six months ended 30 September 2017 HK\$'000	Audited Year ended 31 March 2017 HK\$'000
At 1 April 2017/1 April 2016	75,481	74,467
Provided during the Period/year	–	1,014
Exchange realignment	45	–
	<hr/>	<hr/>
At 30 September 2017/31 March 2017	75,526	75,481
	<hr/>	<hr/>

14. TRADE PAYABLES

	Unaudited As at 30 September 2017 HK\$'000	Audited As at 31 March 2017 HK\$'000
Trade payables	49,659	47,980
	<hr/>	<hr/>

An aging analysis of the trade payables as at the end of Period, based on the invoice date, is as follows:

	Unaudited As at 30 September 2017 HK\$'000	Audited As at 31 March 2017 HK\$'000
Within 90 days	16,846	17,676
91 to 180 days	5,364	1,158
181 to 365 days	73	55
Over 1 year	27,376	29,091
	<hr/>	<hr/>
	49,659	47,980
	<hr/>	<hr/>

The trade payables are non-interest-bearing and are normally settled on terms ranging from 90 days to 365 days.

15. DEFERRED INCOME

	<i>HK\$'000</i>	
Audited		
1 April 2016		16,836
Additions during the year		2,636
Released to profit or loss		(2,682)
Exchange realignment		(978)
		<hr/>
At 31 March 2017		15,812
		<hr/>
Unaudited		
As at 1 April 2017		15,812
Additions during the Period		1,759
Released to profit or loss		(1,398)
Exchange realignment		683
		<hr/>
At 30 September 2017		16,856
		<hr/>
	Unaudited	Audited
	As at	As at
	30 September	31 March
	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:		
Current	3,202	2,974
Non-current	13,654	12,838
	<hr/>	<hr/>
	16,856	15,812
	<hr/>	<hr/>

The balances represent ten-year management fees received in advance in respect of tombs and columbarium niches sold. Management fee receipts in advance are credited to revenue on the straight-line basis over the contractual periods (which are generally ten years).

16. CONVERTIBLE BONDS

On 17 November 2015 (the “issue date”), the Company issued convertible bonds (the “CB”) with a principle amount of HK\$50,000,000 with an initial conversion price of HK\$0.14975 per ordinary share of the Company (subject to certain anti-dilutive adjustments). The CB will mature on 16 November 2017 (the “initial maturity date”) unless the Company delivers written notice to the bondholders no earlier than 60 days and at least fifteen business days prior to the initial maturity date to extend for a further 12-months.

Pursuant to the bond subscription agreement, the CB is:

- (a) convertible at the option of the bondholders into ordinary shares of the Company at any time from the issue date to the maturity date; and
- (b) redeemable at the option of the bondholder upon the occurrence of any of the events of default as stipulated in the agreement at redemption amount of the 100% outstanding principle amount plus interests and premium which will provide the bondholder with an annual compounded cumulative internal rate of return of 20% per annum on such redemption amount.

The coupon interest rate is 7.0% per annum, payable semi-annually in arrears on 17 May and 17 November in each year. Unless previously redeemed, or converted to ordinary shares of the Company, any outstanding CB shall be redeemed on the maturity date at the redemption amount of the 100% outstanding principle amount plus outstanding interest and a premium which will provide the bondholder with an annual compounded cumulative internal rate of return of 10% per annum on such redemption amount.

The convertible bonds are guaranteed by Mr. Shi Hua, and secured by Mr. Shi Hua’s shares in the Company.

Since the conversion options embedded in the CB do not meet the definition of equity instruments of the Company, the entire convertible bonds are accounted for as financial liabilities, and separated into the host debt component and embedded derivative component. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option pricing model and this amount is accounted for as financial liabilities at fair value through profit or loss. The host debt component is initially recognised as the excess of proceeds over the amount initially recognised as the derivative component, net of transaction costs allocated to the host debt component, and is subsequently measured at amortised cost.

On 16 May 2017, the Company and all interest parties concerned entered into the deed of termination and release pursuant to which the parties mutually agreed for the early redemption and termination of the guaranteed and secured convertible bonds in full at the redemption price equivalent to an amount of HK\$55,199,000 together with all outstanding and unpaid interest accrued and referral fee.

The convertible bonds recognised on initial recognition are as follows:

	<i>HK\$’000</i>
Nominal value of convertible bonds issued	50,000
Direct transaction costs attributable to the host debt component	(169)
Initial embedded derivative component	(17,300)
	<hr/>
Host debt component on initial recognition upon issuance	32,531
	<hr/>

The movements in the host debt component for the Period and the year ended 31 March 2017 are as follows:

	Unaudited Six months ended 30 September 2017 HK\$'000	Audited Year ended 31 March 2017 HK\$'000
Host debt component at 1 April	48,477	34,000
Interest expense	2,873	22,100
Interest payable	(1,350)	(7,623)
Redemption	(50,000)	–
	<hr/>	<hr/>
Host debt component at 30 September 2017 and 31 March 2017	–	48,477
	<hr/>	<hr/>

Interest expenses on the CB are calculated using the effective interest method by applying the effective interest rate of 25.07% semi-annually to the host debt component.

The movements in the derivative component embedded in the CB for the Period and the year ended 31 March 2017 are as follows:

	Unaudited Six months ended 30 September 2017 HK\$'000	Audited Year ended 31 March 2017 HK\$'000
Embedded derivatives component at 1 April 2017 and 1 April 2016	1,000	9,700
Fair value changes recognised in the statement of profit or loss (<i>note 4</i>)	(1,000)	(8,700)
	<hr/>	<hr/>
Embedded derivatives component at 30 September 2017 and 31 March 2017	–	1,000
	<hr/>	<hr/>

As at 31 March 2017, the fair value of the derivative component was determined based on the valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, using the applicable option pricing model.

17. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the Period.

(a) Other transactions with related parties

	Unaudited Six months ended 30 September 2017 HK\$'000	2016 HK\$'000
Consultancy fee to non-controlling shareholder in which the controlling shareholder of the Company has control (note i)	448	–
Rental expenses to non-controlling shareholder in which the controlling shareholder of the Company has control (note i)	48	–
Interest expenses to a related company in which one of the Executive Directors has control (note ii)	5,666	–
	<u>6,162</u>	<u>–</u>

Notes:

- (i) These transactions constitute a de minimis transactions under Rule 14A.76(1)(c) of Chapter 14A of the Listing Rules and are therefore fully exempted from all disclosure requirements.
- (ii) As the borrowing is not secured by any asset of the Group and as the Directors consider that the borrowing is on normal commercial terms or better, the borrowing is fully exempted from the Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

The Company has guaranteed the bank borrowings, bonds payable and convertible bonds with all assets and undertakings of Mr. Shi Hua and the controlling shareholder, including shares of the Company.

(b) Outstanding balances with related parties

The Group had outstanding balance to the non-controlling shareholders and other borrowings to a related company as at the end of the Period.

(c) Compensation of key management personnel of the Group

The Directors are of the opinion that the key management are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and are defined as the Executive Directors, Non-executive Directors and the Chief Executive Officer of the Company.

18. EVENTS AFTER THE REPORTING DATE

On 15 November 2017, part of the CN, which are accounted for as an equity instrument, with an aggregate amount of HK\$35,000,000 were converted at the conversion price of HK\$0.10 each into 350,000,000 ordinary shares of the Company at HK\$0.10 each.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Loyalty and filial piety are essential components of the Chinese culture. The concept of “elaborated funeral” is also a key element forming the culture of filial piety. According to the forecast made by the State Information Center, the forthcoming decade will become the largest growth of the aged population in the PRC in the 21st century with the aging level reaching 20.3% in 2024. Continuous aging in the PRC led to constant growth of annual death toll, accompanied by a solid increase in the number of cremations, all will definitely be the main driver of growth in the funeral service industry in the PRC. In this sense, there is the largest potential consumer group for funeral services in the PRC.

Some industry research reports revealed that the size of the funeral industry in the PRC was close to RMB100 billion in 2017 with a compound growth rate of 17.0%. Among the four main sub-sectors, the cemetery (funeral industry) service industry had the largest size which was nearly RMB60 billion in 2017, showing the ultra-promising market prospects of the funeral industry.

BUSINESS REVIEW

The Group continued to center on the funeral business in an endeavor to make steady progress and to build our capacity and consolidate our foundation.

During the period under review, under the leadership of the Board, the Group strived to enhance the operation capacity of its core projects. In particular, Zhejiang Anxian Yuan as a core business had made significant contributions in terms of performance. Other projects of the Group had also made further breakthrough and had been gradually proceeding towards its dual goals of branding and benefit enhancement. In addition, the Group was closely in line with the direction of national policies to adjust itself to industry reform. Green funeral projects were carried out proactively in all major cemeteries of the Group where advanced facilities and equipment as well as management philosophy were in full swing that promoting funeral modes in a sustainable way through facilitating safety in funeral, ecology and resources aspects and enhancing coordination and unification of funeral comprehensive benefits as its desired result.

The very beginning mind itself is the most accomplished mind of true enlightenment. With its firm belief, the Group will forge valiantly ahead in the foreseeable future. From the benefits of the Group, branding to contributions to society, the Group will uphold the path of innovative development and supreme quality, paving the way for becoming a top-notch brand of funeral in the PRC.

FINANCIAL REVIEW

For the Period, the Group recorded net profit of approximately HK\$6,083,000 (2016: approximately HK\$11,438,000) on revenue of approximately HK\$95,181,000 (2016: approximately HK\$74,424,000). During the Period, the Group sold 1,179 tombs (2016: 1,018 tombs). The Group's net profit decreased period-on-period by approximately HK\$5,355,000 was mainly attributable to the write-back of income tax provision for approximately HK\$4,006,000 in the period for the six months ended 30 September 2016 coupled with the fair value gain of derivative component of convertible bonds recorded in the Period was decreased by HK\$4,100,000 as compared to the corresponding period last year.

The net assets of the Group as at 30 September 2017 was approximately HK\$589,663,000 (31 March 2017: approximately HK\$554,275,000).

OTHER INFORMATION

RESULTS AND DIVIDEND

The results of the Group for the Period are set out under the condensed consolidated statement of profit or loss and the condensed consolidated statement of comprehensive income on pages 1 to 3.

The Directors do not recommend the payment of any dividend for the Period (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

Throughout the Period, the Company has complied with the Code in so far as they are applicable except for the deviation from Code A.1.1 of the Code.

Code provision A.1.1 of the Code

Code provision A.1.1 of the Code stipulates that the Board should meet regularly and board meeting should be held at least four times a year at approximately quarterly intervals. During the Period, only one regular board meeting was held to review and discuss the annual results. The Company does not announce its quarterly results and hence does not consider the holding of quarterly meetings as necessary.

Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices.

AUDIT COMMITTEE REVIEW

The Company has an Audit Committee which was established with written terms of reference, in accordance with Appendix 14 to the Listing Rules, for the purposes of, among others, reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management system. The Audit Committee currently comprises three Independent Non-executive Directors. Mr. Chan Koon Yung is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Group and has discussed and reviewed the internal controls and financial reporting matters of the Group, including the review of the unaudited consolidated interim results of the Group and interim report of the Company for the six months ended 30 September 2017, with the management of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period. No incident of non-compliance was noted by the Company during the Period.

PUBLICATION OF INTERIM RESULTS

This announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.anxianyuanchina.com. The interim report of the Company for the six months ended 30 September 2017 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

By order of the Board
Anxian Yuan China Holdings Limited
Mr. Shi Hua
Chairman

Hong Kong, 22 November 2017

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Shi Hua, Mr. Shi Jun, Mr. Law Fei Shing and Ms. Shen Mingzhen; one non-executive director, namely Mr. Wang Hongjie; and three independent non-executive directors, namely Mr. Chan Koon Yung, Mr. Lai Chun Yu and Mr. Lum Pak Sum.

GLOSSARY

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

Board	the board of Directors
Chairman	the chairman of the Board
Chief Executive Officer	the chief executive officer of the Company
Code	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules
Company/Anxian Yuan1	Anxian Yuan China Holdings Limited, a company incorporated in the Bermuda with limited liability and the issued Shares are listed on the Stock Exchange
Company Secretary	The company secretary of the Company
Director(s)	the director(s) of the Company
Executive Director(s)	the executive Director(s)
Group	the Company and its subsidiaries
Hirise	Hirise Corporation Limited
HKAS	the Hong Kong Accounting Standards issued by the HKICPA
HKFRS(s)	the Hong Kong Financial Reporting Standards, collectively includes all applicable individual Hong Kong Financial Reporting Standards, HKAS and Interpretations issued by the HKICPA
HKICPA	the Hong Kong Institute of Certified Public Accountants
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Independent Non-executive Director(s)	the independent non-executive Director(s)
Jia Yuan	Jia Yuan Trading Limited
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange

Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
Non-executive Director(s)	the non-executive Director(s)
Period	the six months ended 30 September 2017
PRC	the People's Republic of China, which for the purpose of this announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share(s)	the ordinary share(s) of HK\$0.1 each in the share capital of the Company
Shareholder(s)	holder(s) of the Share(s)
Share Option Scheme	the share option scheme adopted by the Company on 18 July 2008
Stock Exchange	The Stock Exchange of Hong Kong Limited
Yin Chuan Fu Shou Yuan	銀川福壽園人文紀念園有限公司 (in English, for identification purpose, Yin Chuan Fu Shou Yuan Humanistic Cultural Memorial Park Co. Ltd.), a limited liability company established under the laws of the PRC
Zhejiang Anxian Yuan	浙江安賢陵園有限責任公司 (in English, for identification purpose, Zhejiang Anxian Yuan Company Limited), a limited liability company established under the laws of the PRC
Zunyi Dashenshan	遵義詩鄉大神山生態陵園有限公司 (in English, for identification purpose, Zunyi Shixiang Dashenshan Cemeteries Co. Ltd.), a limited liability company established under the laws of the PRC
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
RMB	Renminbi, the lawful currency of PRC
US\$	United States dollars, the lawful currency of USA
%	per cent