福寿园
FU SHOU YUAN

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: 01448

2013
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Lin Hung Ming (also known as Lin Hon Min)
Mr. Lu Hesheng
Mr. Huang James Chih-Cheng

Independent Non-executive Directors

Mr. Chen Qunlin
Mr. Luo Zhuping
Mr. Ho Man
Ms. Wu Jianwei

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Bai Xiaojiang *(Chairman)*
Mr. Luo Zhuping
Mr. Chen Qunlin

REMUNERATION COMMITTEE

Mr. Luo Zhuping *(Chairman)*
Mr. Tan Leon Li-an
Mr. Chen Qunlin

COMPLIANCE COMMITTEE

Ms. Wu Jianwei *(Chairman)*
Mr. Luo Zhuping
Mr. Ho Man
Mr. Chen Qunlin

JOINT COMPANY SECRETARIES

Mr. Zhao Yu
Ms. Wong Wai Ling

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang
Mr. Zhao Yu

REGISTERED OFFICE

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Clifton House
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Cayman Islands

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North Point
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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Clifton House
75 Fort Street
P.O. Box 1350
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

COMPLIANCE ADVISOR
Shenyin Wanguo Capital (H.K.) Limited
Level 19
28 Hennessy Road
Hong Kong

PRINCIPAL BANKERS
Citibank, N.A.
Shanghai Pudong Development Bank
Shanghai Rural Commercial Bank

AUDITOR
Deloitte Touche Tomatsu

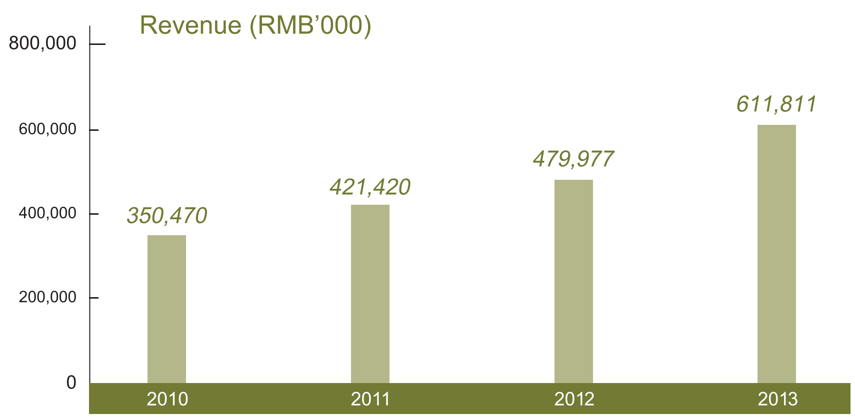
STOCK CODE
1448

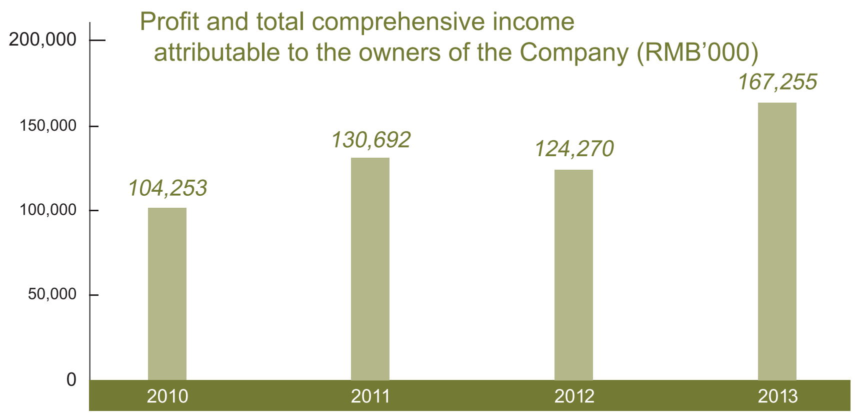
WEBSITE
http://www.fsygroup.com

FINANCIAL SUMMARY

	Year ended December 31, 2010 RMB'000	Year ended December 31, 2011 RMB'000	Year ended December 31, 2012 RMB'000	**Year ended December 31, 2013 RMB'000**
Revenue	350,470	421,420	479,977	**611,811**
Gross profit	282,687	343,792	386,318	**491,659**
Profit before taxation	153,235	188,548	194,632	**260,376**
Profit and total comprehensive income attributable to the owners of the Company	104,253	130,692	124,270	**167,255**
Basic earnings per share (RMB cents per share)	7	9	8	**11**

	As at December 31, 2010 RMB'000	As at December 31, 2011 RMB'000	As at December 31, 2012 RMB'000	**As at December 31, 2013 RMB'000**
Non-current assets	335,867	471,538	586,635	**720,373**
Current assets	286,556	373,962	448,587	**1,747,778**
Non-current liabilities	135,526	239,546	245,043	**211,086**
Current liabilities	215,471	325,306	409,177	**512,128**
Net assets	271,426	280,648	381,002	**1,744,937**





CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I present the 2013 full-year results of the Group.

During the period of 2013, Fu Shou Yuan successfully achieved the business objectives set at the beginning of the year and recorded encouraging results. During the year under review, its revenue amounted to RMB611.8 million, representing an increase of 27.5% from 2012 (2012 : RMB480.0 million). As the Group's operating revenue continued to grow during the year, it also optimized the Group's internal management, and maintained a gross profit margin at 80.4% for the year ended December 31, 2013. The Group realized profit and total comprehensive income attributable to owners of the Company of RMB167.3 million in 2013, representing a significant increase of approximately 34.6% from 2012 (2012: RMB124.3 million).

Fu Shou Yuan will insist in its philosophy of sharing growth and achievements with investors. Given that the Group was recently listed on the Stock Exchange in December 2013, the Board does not intend to pay a final dividend for 2013 to the Shareholders. The Group will maintain a payout ratio of no less than 25% to reward all investors for their support in subsequent periods. However, we will annually review our dividend policy.

2013 was undoubtedly witnessing a breakthrough year for Fu Shou Yuan. Fu Shou Yuan listed on the main board of the Stock Exchange on December 19, 2013, it honored that the Group becomes the "first PRC funeral company's share" listed in Hong Kong, successfully landed at Hong Kong, an international financial platform, and showed our bloom, while ranked No. 1 in terms of the number of applicants for shares in Hong Kong in 2013. The successful Listing of Fu Shou Yuan represents the widely recognition of our innovative operating philosophy among communities, and is confident of the huge development potential of the PRC death care industry. The Group bears a great responsibility and a strong driven force to be the leader and integrator of the PRC death care industry, which persisting in stepping forward to our mission in a large extent.

Fu Shou Yuan was one of the first enterprise entrants into the PRC death care services industry since 1994, the death care and cemetery concept was subverted and combined with traditional death care culture and modern philosophy. The Group not only provides professional and tailor-made comprehensive services, but also satisfies demand of different customer groups; we also strive in transforming cemetery into park through humanity approach, and help people to seek for warmth and energy from past memories of lives and let farewell more beautiful. Through the progress of transformation into a public company, the Group successfully achieves a diversified, balanced and healthy ownership structure comprising founding shareholders, management, social communities and investors. In 2013, we have attained a sustainable and rapid growth in results, and have maintained strong profitability at the same time. Through 20 years of unflagging effort, in terms of income scale and geographical coverage, Fu Shou Yuan has become the largest death care services provider in the PRC, providing our customers with quality, high value-added death care services and humanity and care in major cities in eight provinces.

CHAIRMAN'S STATEMENT

"Let there be a careful attention to perform the funeral rites to parents, and let them be followed when long gone with the ceremonies of sacrifice - then the virtue of the people will resume its proper excellence." 「慎終追遠，民德歸厚」, Chinese 5,000 years culture has a long history, death care custom is particularly deep-rooted in our culture. "Filial piety — that parents, when alive, be served according to propriety; that, when dead, they should be buried according to propriety; and that they should be sacrificed to according to propriety". 「生，待之以禮；死，葬之以禮，祭之以禮」 is one of the most valuable virtues of the Chinese culture, and the foundation of essence and social moral of traditional value. There is a baby boom in the PRC since 1950's, thus the aging population has eventually arrived. With urbanization speeding up in the PRC and improving material conditions, people's spiritual pursuit has also been improved, and they are willing to set aside more budget on death care services and are more demanding towards death care services, thus the operating philosophy and service standard of death care industry shall be enhanced accordingly, which providing unlimited opportunities to the Company.

As a leader in the death care services industry in the PRC, the Group has persisted in assuming social responsibility and has upheld Chinese traditional values and cultural heritage. While ensuring our earnings, we uphold Chinese values of filial piety, family responsibility and showing respect to one's ancestors as an important guideline when we design and provide death care services. We conform to the wishes the deceased may have had or to the preferences of the family of the deceased, and advocate Chinese traditional filial piety culture through providing quality services. Moreover, the Group has placed a strong emphasis on public welfares, promoting Chinese traditional culture and values, which also strengthen our brand recognition and consolidate our leading position in our history. In 2013, we were awarded "Top Ten Most Investment-Worthy Brand in Asia" by the Global Times, the China Economic Herald and the Asia Brand Association. In March 2014, as the only candidate in death care industry, we, together with the Radio and Television Shanghai (上海廣播電視台), Shanghai Media Group (上海東方傳媒集團有限公司) and other enterprises, were awarded "Ten Best Corporate Cultural Innovative Brands in Shanghai for 2012-2013 (2012-2013年度上海企業文化創新十佳品牌)" by Shanghai Enterprise Culture Promotion Association (上海市企業文化促進會). In the same month, we became a constituent stock of the Hang Seng Composite Index.

Prior to Listing, the Group has sustainably explored and practiced in corporate governance. The Group not only engaged external independent third-party as our internal control adviser, but also improved our internal structure through a quadruple supervision structure consisting of function centre, internal control centre, internal control adviser and professional committees. In respect of Fu Shou Yuan Group after Listing, the objective of corporate governance is not only a simply stress and repeat, but target to a new height, which positioned our corporate governance to be a world-class enterprise, and strive to transform from a passed corporate governance to a first-class corporate governance; strive to transform from system-based corporate governance to awareness and action-based corporate governance; strive to extend the governance efficiency to development of organization and personnel; and supervised by our Shareholders and stakeholders through an open, transparent and market-oriented approach.

CHAIRMAN'S STATEMENT

2014 is the twentieth anniversary of the establishment of Fu Shou Yuan and the first year after Listing. On behalf of all the fellows of Fu Shou Yuan, I would like to take this opportunity to express my gratitude to all circles of society which recognize and support us during the course of Listing and after Listing. Fu Shou Yuan will always show gratitude and reward all investors with the best results, and we will not disappoint your believe and encouragement. The fellows of the Group will make persistent efforts and turn on our engine to speed up our development in this new Horse Year, in order to achieve the long-term development of Fu Shou Yuan and drive the progress of the PRC death care business with persisting effort!

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

Hong Kong, March 26, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

(1) MARKET OVERVIEW

In year 2013, China recorded a GDP growth rate of 7.6% which is the lowest in the past nineteen years. This signified that the economy has entered into a phase of slower but stable growth. At the same time, the aged population of China has been growing steadily with over 190 million people above the age of 60 in year 2013. Coupled with the increasing rate of urbanization in China, the death care services industry in China has enjoyed a CAGR of 13.1% between 2008 and 2012. The PRC's death care services industry is now the largest in the world and also one of the fastest growing industries. According to Euromonitor International Limited, a leading global market information provider, the number of people aged over 65 in the PRC is expected to grow by more than 5% per annum while the death care services industry is expected to achieve a CAGR of 17% per annum during the period of 2013 to 2017.

(2) BUSINESS REVIEW

Headquartered in Shanghai, the Group is the largest provider of death care services in the PRC. It operates two cemeteries in Shanghai, as well as one cemetery in each of Hefei, Zhengzhou, Jinan and Jinzhou. In terms of funeral services, the Group operates two funeral facilities in Chongqing and one in each of Shanghai, Hefei and Xiamen. Meanwhile, the Group has set up a branch in Ningbo to develop the business in the Zhejiang market.

The Group's beautifully designed cemeteries and customized funeral facilities offer customers a distinct way to express the old traditional culture of filial piety. Since inception in 1994, we keep abreast of market changes and consumer demand from our provision of personalized and customized death care services to our customers and gain extensive support and recognitions from the market. In year 2013, the Group held ceremonies for memorizing ascendants and deceased who had contributed to the society which clearly demonstrates our commitment to be the leading death care services provider through innovation and working closely with the society.

As disclosed in the Prospectus, the Group performed restructuring steps in year 2013, to consolidate its controlling position in the cemeteries it has invested over the past five years. As a result, the entities owning cemeteries in Zhengzhou (i.e. Henan FSY Industrial) and Jinzhou (i.e. Jinzhou Maoshan Anling) have become wholly owned subsidiaries of the Group. In addition, the other shareholders of Shanghai Nanyuan entered into an agreement with us, pursuant to which they irrecoverably assigned to the Group with the rights to manage and formulate financial and operation policies of Shanghai Nanyuan, and as a result, Shanghai Nanyuan became a 40% owned subsidiary of our Company. At the same time, the Group has expanded into new geographical markets in Xiamen and Ningbo last year.

As a result, the revenue of the Group increased from approximately RMB 480.0 million for the year ended December 31, 2012 to approximately RMB 611.8 million for the year ended December 31, 2013. Moreover, the Group planned to capitalize on the rising demand for environmentally friendly cremation machines, which demonstrates the Group's continuous effort to identify new products/services to enrich its business model. Last but not the least, the Listing further illustrated our commitment on establishing a new platform for sustainable development of the Group.

(3) REVIEW OF OPERATIONS AND RESULTS

(a) Financial Review

REVENUE

We derive our revenue primarily from two business segments: burial services and funeral services. The following table sets forth our revenue by segment for the year under review:

	Year ended December 31,			
	2013		2012	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Burial services	**523,812**	**85.6%**	418,860	87.3%
Funeral services	**87,999**	**14.4%**	61,117	12.7%
Total	**611,811**	**100.0%**	479,977	100.0%

Our revenue increased by approximately RMB131.8 million, or 27.5%, from approximately RMB480.0 million for the year ended December 31, 2012 to approximately RMB611.8 million for the year ended December 31, 2013. This increase was primarily driven by a 25.1%, or approximately RMB105.0 million, increase in revenue from burial services and a 44.0%, or approximately RMB26.9 million, increase in revenue from funeral services.

Our cemeteries and funeral facilities are strategically located in major cities across eight provinces in the PRC, and we derived our revenue from eight cities and/or provinces during the year ended December 31, 2013. The following table sets forth a breakdown of our revenue by region for the year under review:

	Year ended December 31,			
	2013		2012	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai	**371,326**	**60.7%**	279,849	58.3%
Henan	**36,638**	**6.0%**	29,507	6.1%
Chongqing	**52,060**	**8.5%**	42,762	8.9%
Anhui	**67,969**	**11.1%**	61,308	12.8%
Shandong	**36,416**	**6.0%**	35,350	7.4%
Liaoning	**39,333**	**6.4%**	31,201	6.5%
Fujian	**7,685**	**1.2%**	—	—
Zhejiang	**384**	**0.1%**	—	—
Total	**611,811**	**100.0%**	479,977	100.0%

(3) REVIEW OF OPERATIONS AND RESULTS – *continued*

(a) Financial Review – *continued*

REVENUE – continued

We achieved a growth in every location where we operate, particularly:

- the revenue from our operations in Shanghai increased by approximately RMB91.5 million or 32.7% for the year ended December 31, 2013, as compared with the year ended December 31, 2012, and amounted to approximately RMB371.3 million. The growth was primarily due to our acquisition of management control of Shanghai Nanyuan in January 2013, which contributed sales of burial plots with revenue of approximately RMB67.0 million;
- our funeral facilities in Xiamen City of Fujian Province and Ningbo City of Zhejiang Province commenced provision of funeral services in December 31, 2013, which contributed to a revenue growth of approximately RMB8.1 million; and
- we achieved an organic revenue growth of approximately RMB56.7 million, or 11.8% as compared with the year ended December 31, 2012, from the then existing cemeteries and funeral facilities as at the end of the year ended December 31, 2012.

(3) REVIEW OF OPERATIONS AND RESULTS – *continued*

(a) Financial Review – *continued*

BURIAL SERVICES

We derive a substantial portion of our revenue from our burial services, which represented 85.6% (year ended December 31, 2012: 87.3%) of our total revenue for the year ended December 31, 2013. Our burial services include the sale of burial plots and cemetery maintenance services. Sale of burial plots represented the largest component of our revenue from burial services, which contributed 98.1% of our revenue from burial services for the year ended December 31, 2013. Our revenue from the sale of burial plots for a given period is dependent upon the number of units we sold during the period, as well as the average price of the units sold during the period. The following table sets for the breakdown of our revenue from burial services, including revenue from the sale of burial plots by type and revenue from cemetery maintenance services and others, for the year under review:

	Year ended December 31,							
	2013				2012			
	No. of units	Average selling price (RMB per unit)	Revenue (RMB'000)	% of revenue from burial services	No. of units	Average selling price (RMB per unit)	Revenue (RMB'000)	% of revenue from burial services
Sale of burial plots								
– Customized	633	256,670	162,473	31.0%	544	259,770	141,315	33.7%
– Artistic	2,032	83,427	169,524	32.4%	1,228	89,602	110,031	26.3%
– Traditional	2,068	40,594	83,947	16.0%	1,749	49,138	85,943	20.5%
– Lawn	952	44,915	42,760	8.2%	731	48,873	35,726	8.5%
– Green	550	10,340	5,686	1.1%	348	8,977	3,124	0.7%
– Indoor	1,432	5,583	7,996	1.5%	189	25,175	4,758	1.1%
– Other burial related services	–	–	41,279	7.9%	–	–	30,085	7.3%
	7,667	–	513,665	98.1%	4,789	–	410,982	98.1%
Cemetery maintenance services	–	–	10,147	1.9%	–	–	7,878	1.9%
Total revenue from burial services	7,667	–	523,812	100.0%	4,789	–	418,860	100.0%

As the selling prices of burial plots of each cemetery varies according to local market conditions, the fluctuation in average selling price for each type of burial plot is mainly due to change in geographical mix of burial plots sold between 2012 and 2013.

(3) REVIEW OF OPERATIONS AND RESULTS – *continued*

(a) Financial Review – *continued*

BURIAL SERVICES – continued

We have six cemeteries currently in operation in five cities, and have been deriving revenue from them. The following table sets forth the breakdown of our revenue from the burial services by cemetery for the year under review:

	Year ended December 31,			
	2013		2012	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	**296,743**	**56.7%**	275,283	65.7%
Shanghai Nanyuan	**67,049**	**12.8%**	—	—
Henan Fu Shou Yuan	**36,638**	**7.0%**	29,507	7.1%
Shandong Fu Shou Yuan	**36,416**	**6.9%**	35,350	8.4%
Hefei Dashushan Cultural Cemetery	**47,633**	**9.1%**	47,519	11.3%
Jinzhou Maoshan Anling	**39,333**	**7.5%**	31,201	7.5%
Total revenue from burial services	**523,812**	**100.0%**	418,860	100.0%

We acquired management control of Shanghai Nanyuan in January 2013 and its results of operations have been consolidated by us since then. The consolidation of Shanghai Nanyuan's results contributed to the increase of revenue from burial services by approximately RMB67.0 million. Excluding the Shanghai Nanyuan consolidation factor, we achieved a year over year organic growth in the revenue from burial services by 9.0%, or approximately RMB37.9 million.

FUNERAL SERVICES

Our revenue from funeral services increased by approximately RMB26.9 million, or 44.0% from approximately RMB61.1 million for the year ended December 31, 2012 to approximately RMB88.0 million for the year ended December 31, 2013. This is partly due to commencement of operations in Fujian and Zhejiang which contributed revenue of approximately RMB8.1 million. Excluding the above factor, we achieved a year over year organic growth in the revenue from funeral services by 30.7%, or approximately RMB18.8 million.

COST OF SALES AND SERVICES

Cost of sales and services consists primarily of the costs we incur in relation to the provision of our death care services. The following table sets forth information relating to our cost of sales and services by segment for the year under review:

	Year ended December 31,			
	2013		2012	
	Cost of sales and services (RMB'000)	**% of total cost of sales and services**	Cost of sales and services (RMB'000)	% of total cost of sales and services
Burial services	**94,457**	**78.6%**	76,453	81.6%
Funeral services	**25,695**	**21.4%**	17,206	18.4%
Total	**120,152**	**100.0%**	93,659	100.0%

Our cost of sales and services increased by approximately RMB26.5 million, or 28.3%, from approximately RMB93.7 million for the year ended December 31, 2012 to approximately RMB120.2 million for the year ended December 31, 2013. This increase was primarily due to a 23.5% increase in cost of sales and services for burial services and a 49.3% increase in cost of sales and services for funeral services.

Our cost of sales and services for burial services includes the following:

- tombstone cost, which represents the cost of the tombstones used for burial plots;
- land cost, which represents the cost to acquire land for development into cemeteries and surrounding areas;
- development cost, which represents the overall expenditure incurred to convert the land into saleable burial plots, including planning and design expenditures and landscaping expenditures;
- landscaping facility cost, which represents the depreciation and amortization expenses related to the construction of arbors and bridges in the mausoleum;
- cemetery maintenance cost, which represents the cost for the ongoing landscaping and maintenance of the burial plots; and
- others, which represents costs for design services, tombstone engraving, sculptures, flowers, labor, sales taxes and other incidental expenses.

COST OF SALES AND SERVICES – continued

The following table sets forth a breakdown of the cost of sales and services for our burial services for the year under review:

	Year ended December 31,			
	2013		2012	
	Cost of sales and services (RMB'000)	**% of total cost of sales and services**	Cost of sales and services (RMB'000)	% of total cost of sales and services
Tombstone cost	**33,532**	**35.5%**	25,535	33.4%
Land cost	**8,923**	**9.4%**	7,807	10.2%
Development cost	**16,483**	**17.5%**	15,610	20.4%
Landscaping facility cost	**2,763**	**2.9%**	2,196	2.9%
Cemetery maintenance cost	**7,769**	**8.2%**	6,859	9.0%
Others	**24,987**	**26.5%**	18,446	24.1%
Total	**94,457**	**100.0%**	76,453	100.0%

Our cost of sales and services for burial services increased by approximately RMB18.0 million, or 23.5%, from approximately RMB76.5 million for the year ended December 31, 2012 to approximately RMB94.5 million for the year ended December 31, 2013, mainly due to the increase of number of burial plots sold for the year. Our cost structure of sales and services for burial services remains relatively stable.

Our cost of sales and services for funeral services represents the various expenditures incurred in relation to the provision of funeral services, including our operating staff costs, cost of caskets and other ancillary costs related to the provision of funeral services. Our cost of sales and services for funeral services increased by approximately RMB8.5 million, or 49.3%, from approximately RMB17.2 million for the year ended December 31, 2012 to approximately RMB25.7 million for the year ended December 31, 2013. This increase was primarily due to the business growth in our funeral service segment, especially our commencement of provision of funeral services in Xiamen City in February 2013.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB105.3 million, or 27.3%, from approximately RMB386.3 million for the year ended December 31, 2012 to approximately RMB491.6 million for the year ended December 31, 2013. Our overall gross profit margin remains stable at 80.4% (year ended December 31, 2012: 80.5%) for the year ended December 31, 2013. The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the year under review:

	Year ended December 31,			
	2013		2012	
	Gross profit (RMB'000)	**Gross profit margin (%)**	Gross profit (RMB'000)	Gross profit margin (%)
Burial services	**429,355**	**82.0%**	342,407	81.7%
Funeral services	**62,304**	**70.8%**	43,911	71.8%
Total	**491,659**	**80.4%**	386,318	80.5%

We maintained a relatively stable gross profit margin as we have been consistently providing very high quality of service in the death care services industry in the PRC. Through provision of premium services and promoting our Fu Shou Yuan brand, we obtained a price premium over other death care services providers in the PRC. Our gross profit margin for funeral services slightly decreased from 71.8% for the year ended December 31, 2012 to 70.8% for the year ended December 31, 2013, mainly due to our commencement of provision of funeral services in Xiamen City in February 2013, which had a relatively low profit margin in its debut year.

OTHER INCOME AND GAINS, NET

The following table sets forth a breakdown of major components of our net other income and gains for the year under review:

	Year ended December 31,	
	2013 (RMB'000)	2012 (RMB'000)
Gain on deemed disposal of an associate	**16,428**	—
Interest income on bank deposits	**5,240**	2,667
Interest income on borrowings to others	**1,054**	4,637
Government grants	**5,431**	3,281
Others	**1,279**	(796)
Total	**29,432**	9,789

OTHER INCOME AND GAINS, NET – continued

Gain on deemed disposal of an associate of approximately RMB16.4 million for the year ended December 31, 2013 represented a gain recognized in connection with our acquisition of control of Shanghai Nanyuan. On January 4, 2013, Shanghai FSY Industry Development, our wholly-owned subsidiary holding a 40% equity interest in Shanghai Nanyuan, entered into an agreement with the remaining equity holders of Shanghai Nanyuan. Pursuant to the agreement, the remaining equity holders of Shanghai Nanyuan assigned irrecoverable rights to Shanghai FSY Industry Development to direct the relevant activities of Shanghai Nanyuan unilaterally. As such, we gained control of Shanghai Nanyuan and it became our 40% owned subsidiary, which resulted in our 40% equity interest in Shanghai Nanyuan being deemed to have been disposed of and acquired as a subsidiary. A gain was recorded from the deemed disposal.

Our interest income on bank deposits increased by approximately RMB2.5 million from approximately RMB2.7 million for the year ended December 31, 2012 to approximately RMB5.2 million for the year ended December 31, 2013, mainly due to the higher average bank deposits balance during the year ended December 31, 2013.

Our interest income on borrowings to others decreased by approximately RMB3.5 million, from approximately RMB4.6 million for the year ended December 31, 2012 to approximately RMB1.1 million for the year ended December 31, 2013, mainly due to the settlement of all borrowings to related parties and independent third parties for the year ended December 31, 2013.

Government grants in the amount of approximately RMB5.4 million for the year ended December 31, 2013 and approximately RMB3.3 million for the year ended December 31, 2012 represented unconditional tax subsidies from the local government to encourage economic development.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses mainly consist of salary and staff costs for our sales and distribution staff, commissions, advertisement and promotion expenses, travel expenses, business development expenses and leasing expenses. The following table sets forth a breakdown of our distribution and selling expenses for the year under review:

	Year ended December 31,			
	2013		2012	
	Distribution and selling expenses (RMB'000)	**% of distribution and selling expenses**	Distribution and selling expenses (RMB'000)	% of distribution and selling expenses
Salary and staff costs	**46,499**	**43.9%**	45,765	48.1%
Commissions	**27,987**	**26.4%**	21,062	22.1%
Advertisement and promotion	**7,525**	**7.1%**	6,941	7.3%
Travel	**4,537**	**4.3%**	3,519	3.7%
Business development	**11,012**	**10.4%**	10,882	11.4%
Leasing	**2,970**	**2.8%**	2,319	2.4%
Others	**5,452**	**5.1%**	4,726	5.0%
Total	**105,982**	**100.0%**	95,214	100.0%

Our distribution and selling expenses increased by approximately RMB10.8 million, or 11.3%, from approximately RMB95.2 million for the year ended December 31, 2012 to approximately RMB106.0 million for the year ended December 31, 2013. This increase was primarily due to our consolidation of Shanghai Nanyuan's results for the year ended December 31, 2013, which contributed to an increase in distribution and selling expenses by approximately RMB11.0 million. The increase was also due to the general salary adjustment in 2013 but partially offset by the effect of special year-end bonuses for our sales and distribution staff aggregating to approximately RMB6.5 million paid in 2012 as disclosed in the Prospectus. We set the rate of our commissions by local market standards and we believe the commission level we pay is in line with average local market standards. Our commissions paid or payable for the year ended December 31, 2013 accounted for 4.6% (year ended December 31, 2012: 4.4%) of our total revenue.

ADMINISTRATIVE EXPENSES

Administrative expenses mainly consist of salary and staff costs for our administrative staff, travel and business development expenses, depreciation and amortization expenses of property and equipment, consulting fees, meeting and conference related expenses and leasing expenses. The following table sets forth a breakdown of our administration expenses for the year under review:

	Year ended December 31,			
	2013		2012	
	Administrative expenses (RMB'000)	**% of administrative expenses**	Administrative expenses (RMB'000)	% of administrative expenses
Salary and staff costs	**68,472**	**55.7%**	50,847	48.9%
Travel and business development	**21,801**	**17.8%**	16,688	16.0%
Depreciation and amortization	**14,061**	**11.4%**	10,891	10.5%
Consulting fees	**3,119**	**2.5%**	17,730	17.0%
Meeting and conference	**5,825**	**4.7%**	3,017	2.9%
Leasing	**3,863**	**3.1%**	3,129	3.0%
Others	**5,810**	**4.8%**	1,760	1.7%
Total	**122,951**	**100.0%**	104,062	100.0%

Our administrative expenses increased by approximately RMB18.9 million, or 18.2%, from approximately RMB104.1 million for the year ended December 31, 2012 to approximately RMB123.0 million for the year ended December 31, 2013. This increase was primarily due to (i) our consolidation of Shanghai Nanyuan's results in 2013, which contributed to an increase of administrative expenses by approximately RMB9.8 million, (ii) an extra charge for the year ended December 31, 2013 of approximately RMB6.6 million due to our grant of share options to our Directors and employees in August 2013, (iii) an increase in salary and staff costs of approximately RMB5.5 million mainly due to the general salary adjustment and new hiring in 2013, and (iv) general increase of other administrative expense items due to business growth and more communications and affairs during our process of Listing in 2013. There was a decrease in consulting fees, from approximately RMB17.7 million for the year ended December 31, 2012 to approximately RMB3.1 million for the year ended December 31, 2013, as we incurred extra expenses related to the litigation between us and China Healthcare, which was disclosed in the Prospectus, for the year ended December 31, 2012, while we only incurred professional fees such as auditing fees for our annual financial statements and website upgrade for the year ended December 31, 2013.

FINANCE COSTS

Finance costs consist of interest expense on borrowings, loans from non-controlling interests and borrowings from independent third parties. The following table sets forth information relating to our finance costs for the year under review:

	Year ended December 31,	
	2013	2012
	(RMB'000)	(RMB'000)
Interest expenses on		
– borrowings	**3,670**	3,882
– loans from non-controlling interests	**4,068**	4,848
– borrowings from independent third parties	**543**	2,107
Less: Capitalized interest	**(3,000)**	—
Total	**5,281**	10,837

Our finance costs decreased by approximately RMB5.5 million from approximately RMB10.8 million for the year ended December 31, 2012 to approximately RMB5.3 million for the year ended December 31, 2013, mainly due to our repayment of the borrowings from Chongqing Zhonghan Xinye in July 2013 and capitalized interest on borrowings used for construction in progress.

Interest expense on loans from non-controlling interests refers to our interest expense in connection with the shareholder's loans borrowed by our subsidiary, Shandong FSY Development, from Shandong World Trade Centre. Shandong FSY Development is jointly invested by our Group and Shandong World Trade Centre. Our Group and Shandong World Trade Centre jointly provide funding to Shandong FSY Development, for its land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentage in addition to the registered capital. Shandong FSY Development repaid part of the loan for the year ended December 31, 2013 to its shareholders, which led to the decrease of interest expenses on loans from non-controlling interests by approximately RMB0.8 million.

OTHER EXPENSES

Other expenses of approximately RMB26.5 million for the year ended December 31, 2013 represented the expenditures incurred, but not capitalized, for the Global Offering.

INCOME TAX EXPENSE

The income tax expense increased by approximately RMB13.9 million, or 24.6%, from approximately RMB56.4 million for the year ended December 31, 2012 to approximately RMB70.3 million for the year ended December 31, 2013. Our effective corporate income tax rates were 27.0% and 29.0% for the year ended December 31, 2013 and the year ended December 31, 2012, respectively.

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a result of the foregoing, our profit and total comprehensive income attributable to owners of the Company increased by approximately RMB43.0 million, or 34.6%, from approximately RMB124.3 million for the year ended December 31, 2012 to approximately RMB167.3 million for the year ended December 31, 2013. This increase was primarily due to (i) our revenue growth in our existing cemeteries and funeral facilities and relatively stable gross profit margin; (ii) a gain on deemed disposal of an associate of approximately RMB16.4 million in connection with our acquisition of control of Shanghai Nanyuan in January 2013, (iii) our acquisition of additional interest in existing subsidiaries in connection with an additional 45% equity interest in Henan FSY Industrial and additional 15.73% equity interest in Jinzhou Maoshan Anling both in January 2013, and (iv) the fact that we incurred more expenses related to the litigation between us and China Healthcare in 2012, which amounted to approximately RMB16.8 million. The increase was however offset by (i) the Listing expenses of approximately RMB26.5 million recognized as expenses for the year ended December 31, 2013, and (ii) increase in staff costs for the year ended December 31, 2013 of approximately RMB6.6 million due to our grant of share options to our Director and employees pursuant to the Pre-IPO Share Option Scheme in August 2013.

CASH FLOW

The following table sets forth a summary of our consolidated statements of cash flows for the year under review:

	Year ended December 31,	
	2013	2012
	(RMB'000)	(RMB'000)
Net cash generated from (used in)		
– operating activities	**161,681**	177,403
– investing activities	**(5,142)**	(13,563)
– financing activities	**1,100,613**	(98,878)
Total	**1,257,152**	64,962

We generate our cash from operating activities primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for land acquisition, the development and construction of cemeteries, selling and distribution expenses and administrative expenses. Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as finance costs and depreciation of property and equipment, and the effects of changes in working capital. For the year ended December 31, 2013, our net cash generated from operating activities amounted to approximately RMB161.7 million. It mainly included the operating cash inflows before movement in working capital of approximately RMB276.6 million, but partially offset by (i) our payment of a deposit of approximately RMB36.0 million for purchase of land by our subsidiary, Nanchang Hongfu, (ii) the increase of other working capital of approximately RMB24.7 million due to the business growth, and (iii) income tax paid of approximately RMB54.2 million.

CASH FLOW – continued

Our net cash generated from and used in investing activities reflects the results of our investing activities for the year, such as additions to and deposits paid for property and equipment, proceeds on disposal of property and equipment, acquisitions of subsidiaries, and dividends received from associates. For the year ended December 31, 2013, our net cash used in investing activities was approximately RMB5.1 million. It was primarily due to our additions to and deposits for property and equipments of approximately RMB74.5 million, mainly in connection with (i) the construction of factory and production line set-up for manufacturing cremation machines by our subsidiary, Anhui Zhongfude, (ii) infrastructure construction including new office building and parking area, in Jinzhou, (iii) renovation of dining, training, and customer service facilities in Shanghai, (iv) construction of employee dormitories in Henan, and (v) purchase of certain vehicles and office equipment in various operation locations. It was partially offset by (i) the settlement of our advances to related parties, independent third parties and non-controlling interests together with the relevant interests, amounting to approximately RMB16.8 million, and (ii) the increase in bank balances and cash by approximately RMB38.8 million as a result of the consolidation of Shanghai Nanyuan's results after our acquisition of its control in January 2013.

Our net cash generated from financing activities reflects the results of our financing activities for the year, such as our Global Offering in December 2013, bank borrowings, repayment of bank borrowings, dividends paid to owners of the Company and to non-controlling interests. Our net cash generated from financing activities amounted to approximately RMB1,100.6 million for the year ended December 31, 2013. It was primarily due to the gross proceeds of approximately RMB1,300.9 million received from our Global Offering of 500 million new Shares. The amount was partially offset by (i) dividends paid to owners of the Company of approximately RMB32.4 million and to non-controlling interests of approximately RMB20.0 million, (ii) our net repayment of bank and other borrowings of approximately RMB15.6 million and interest paid of approximately RMB10.3 million, (iii) settlement the accounts with related parties and non-controlling interests with a net amount of approximately RMB14.5 million, (iv) acquisition of additional interest in existing subsidiaries of approximately RMB24.2 million in connection with our acquisition of an additional 45% equity interest in Henan FSY Industrial and additional 15.73% equity interest in Jinzhou Maoshan Anling both in January 2013, and (v) payment of Listing related expenses of approximately RMB84.6 million.

(b) Financial Position

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2013, we had bank balances and cash of approximately RMB1,544.0 million, primarily due to the net proceeds from our Global Offering of 500 million new Shares in December 2013. In January 2014, we issued another 75 million new Shares as the Over-allotment Option (as defined in the Prospectus) was exercised. In the foreseeable future, we expect to fund our capital expenditures, working capital and other capital requirements from the net proceeds from the Global Offering, cash generated from our operations, and bank borrowings.

We had outstanding bank borrowings of approximately RMB39 million as at December 31, 2013, that are wholly repayable within one year. We had bank borrowing facilities of approximately RMB130 million committed but not withdrawn as at December 31, 2013. Meanwhile, Shandong FSY Development, one of our subsidiary, also had an outstanding loan balance of approximately RMB38.2 million, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre. These borrowings were denominated in Renminbi and were subject to floating interest rates ranged from 6.00% to 9.18%.

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 of December 31, 2013 was 2.2%, sharply decreased from 14.3% as of December 31, 2012. The decrease was mainly due to the increase in our equity base as a result of the Global Offering in December 2013.

Our operation has been lightly leveraged because of our good operating cash generating capability. Even we expect that our capital expenditure in 2014 and afterwards will tremendously increase, we do not estimate our gearing ratio will substantially increase considering the bank balance and cash we currently have in hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The economic environment in which we operate is the PRC and our functional currency is RMB. However, certain bank balances, especially the net proceeds from the Global Offering are denominated in foreign currencies, which exposed us to foreign currency risk. In order to mitigate us from the fluctuations in foreign currency exchange rates, we exchanged majority of the proceeds into RMB before the end of 2013 based on the consideration that the use of proceeds will be in RMB and in the PRC. As at December 31, 2013, cash and cash equivalents held in Renminbi, HK dollars and US dollars accounted for approximately 78.5%, 19.0% and 2.5% respectively, of the total cash and cash equivalents. We believe the current level of bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. Whilst the Group currently does not have a foreign currency hedging policy, the management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

(c) Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies

Save for the reorganisation for the purpose of Listing of the Shares on the Stock Exchange as disclosed in the Prospectus, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended December 31, 2013.

(d) Employee and Remuneration Policy

As at December 31, 2013, we had 1,211 full-time employees stationed in ten cities across China. We offer competitive packages as well as fringe benefits to our staff, in which 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 the necessary skills and are remunerated according to their performance.

(e) Capital Commitment

We had contracted but not provided in the financial statements, for the capital expenditures in respect of acquisition of land, property and equipment in an amount of approximately RMB70.5 million as at December 31, 2013. We had also authorized RMB60.0 million for the construction of new business centres in Haigang Fu Shou Yuan and Henan Fu Shou Yuan, and for the cemetery landscaping enhancement and infrastructure development of Shandong Fu Shou Yuan.

We expect our capital expenditure in 2014 and afterwards will tremendously increase as we are actively seeking for and approached with many industry consolidation opportunities.

(f) Assets Pledged

As at December 31, 2013, we pledged buildings with carrying values of approximately RMB10.6 million to secure certain bank borrowings granted to us. Except for that, no other assets were pledged or charged.

(g) Contingent Liabilities

As of December 31, 2013, we did not have any contingent liabilities.

(h) Other Information

(I) CEMETERY LANDS AVAILABLE

We derive a substantial portion of our revenue from our burial services, out of which, sale of burial plots represented the largest component of our revenue from burial services. In 2013, we expended land of approximately 17,848 sq.m. to generate revenue from sale of burial plots. The below table sets forth the saleable area in each of our cemetery as at December 31, 2013.

	Saleable area (sq.m.)
Shanghai Fu Shou Yuan	192,731
Haigang Fu Shou Yuan	55,304
Henan Fu Shou Yuan	218,642
Shandong Fu Shou Yuan	440,531
Hefei Dashushan Cultural Cemetery	42,047
Jinzhou Maoshan Anling	23,409
Total	972,664

When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for burial plots, such as the land areas in connection with the business centre, office building, landscaping, and main roads.

(II) PROPERTY VALUATION

We valued certain material property interests as at September 30, 2013 at approximately RMB386 million as disclosed in the Prospectus. Those assets were not stated at the valuation in our financial statements according to the accounting rules and principles. If those assets had been stated at the valuation at September 30, 2013, an additional depreciation/amortization of approximately RMB1.8 million would be charged against the income statements for the year ended December 31, 2013.

(III) COMPLIANCE

The Group places significant emphasis on up-holding the standard of internal control and corporate governance. Below is an update of measures adopted by the Group to prevent future non-compliance as set out in the section headed "Business – Compliance – Measures Adopted to Prevent Future Non-compliance" in the Prospectus and the respective status as of the date of this Annual Report:

Areas	**Status**
(i) Appointment of professional advisors	We have maintained regular communication with the PRC legal advisor, Hong Kong legal advisor and compliance advisor as to our operations and change in relevant rules and regulations. Furthermore, we have appointed an independent internal control consultant to follow up on monitoring the internal control system of the Group.
(ii) Cash management and lending to third parties	The subsidiaries are submitting weekly reports to the Planning and Financial Management Centre of the Group for review and checking with bank statement. Agreements with the China Construction Bank on establishment of cash pooling system have been executed. We plan to roll out the system in the first half of 2014. With regard to the Group's non-compliance with the Lending General Provisions for providing loans to Zhongfu, the Company has attempted to initiate discussion with the Shanghai branch of PBOC on whether they will impose a penalty on the Group in relation to such loans, and is waiting for feedback from the PBOC. Procedures for other internal control measures as set out in the Prospectus have been promulgated. We would conduct regular internal audit to monitor their effectiveness.
(iii) Submission of statements and registration forms to relevant environmental bureaus	The Company is reviewing the list of legal requirements and required documentations to be submitted for approval prior to commencement of construction for each of the cemeteries the Group operates.

(iv)	Owned and leased properties	We have maintained regular communications with the relevant government authorities in relation to the application for the outstanding construction permits, construction work planning permits and building ownership certificates, and to evaluate any risk of enforcement regarding the Group's unauthorised buildings, up to the date of this Annual Report, we have not received any request to demolish the owned properties listed in the relevant section of the Prospectus. With regard to the 13 leased properties which the lessors did not process relevant title deeds as set out in the Prospectus, we have received documents from owners of 6 properties domesticating their legal interests in the properties. Furthermore, 10 lease contracts for 3 other properties had been terminated. The Company is following up on the remaining leases of 4 properties which are not material to our operation.
(v)	Future business/ asset acquisitions	The Company has established the policy and procedure for assessing business/asset acquisition opportunities as set out in the Prospectus.

(4) PROSPECTS

We believe the Group is well-positioned to continuously benefit from strong fundamentals in death care services industry in the PRC, including but not limited to the steadily growing economy, increasing trend of urbanization, higher disposable income per capita and the ageing population of the country. Furthermore, the Group will continue to implement its expansion plans via:

(i) continuing to be a role model of the death care services industry by setting the industry's best practices and reinforcing the tradition and cultural awareness;

(ii) increasing our market share by expanding into new geographical markets;

(iii) expanding our range of service offerings to cater for evolving market demands; and

(iv) leveraging our "Fu Shou Yuan" brand through acquisition, collaboration and joint venture.

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), age 56, is the chairman, executive Director and chairman of the Nomination Committee. Mr. Bai is responsible for the overall strategic planning and business development of the Group. Mr. Bai has been the chairman of Shanghai FSY Industry Development since 1996. He has also been the president and chairman of Zhongfu since 1996. Mr. Bai is the director of each of Zhongfu, Shanghai Zhongfu and Shanghai FSY Industry Development. Mr. Bai has been a director of Chief Union Investments Limited since December 2011, and is also a director of Fulechuan. He acted as one of the promoters of each of NGO 1 and NGO 2. Mr. Bai has more than 17 years of experience in the death care services industry in the PRC and has served the Group for 17 years. Mr. Bai had recognized accomplishments through his holding of senior engineering and business positions in the PRC, such as his senior role in the construction of the LuPu bridge in Shanghai. Mr. Bai is also a member of the 6th, 7th and 8th central committee of the China Democratic National Construction Association (中國民主建國會) and a member of the 8th, 9th and 10th Chinese People's Political Consultative Conference, Shanghai. Mr. Bai has also been vice president of the Shanghai Federation of Industry and Commerce since November 2013.

Mr. Bai served as a general manager in China Welfare Enterprise (Huadong) Company (中國福利企業華東公司), the predecessor of Zhongfu, during the period from 1990 to 1995. Mr. Bai was a technician, manager of the technology department, assistant to general manager and vice general manager of China Kanghua Industrial Co., Ltd. (中國康華實業有限公司), the predecessor of China Welfare Enterprise (Huadong) Company (中國福利企業華東公司), between 1987 and 1990. Mr. Bai was awarded a bachelor's degree in computer science by the Shanghai Second Polytechnic University in 1986.

Mr. Tan Leon Li-an (談理安), age 49, is the vice-chairman and executive Director. Mr. Tan is responsible for the overall strategic planning and business development of the Group. Mr. Tan has been the vice chairman of Shanghai FSY Industry Development since December 2006 up to January 2014, the director of Hefei Dashushan Co since December 2006 and the vice chairman of Chongqing FSY Industrial since May 2011. Mr. Tan has been a director of FSG Holding since December 2011.

Prior to joining the Group, Mr. Tan had served as the director and the chief operation officer of the Paper Packaging Division of Pacific Millennium Group (國際濟豐集團) since he joined the group in 1989. He also served as the chief executive officer of a joint venture company jointly owned by Pacific Millennium Group and International Paper Company between March 2001 and July 2005.

Mr. Tan graduated from University of California, Berkeley with a bachelor's degree in physical sciences in August 1986 and received a master's degree business administration from University of Southern California in August 1987.

Mr. Tan is the relative of Mr. Tan Li Kang, the senior deputy general manager of projects development of the Company.

Mr. Wang Jisheng (王計生), age 60, is the executive Director and the general manager of the Group. Mr. Wang is responsible for the overall management and business operation and strategic planning and business development of the Group. Mr. Wang has been the managing director of Shanghai FSY Industry Development since 1996. He is an executive director of Chongqing Anle Services, Chongqing Anle Funeral Services and Shandong. He is also president of Shanghai FSY Corporate Management Consultancy. He acted as one of the promoters of NGO 2. Mr. Wang has more than 17 years of experience in the death care services industry in the PRC and has served the Group for more than 17 years.

Mr. Wang has been a lecturer of courses organized by China Funeral Association for the senior management of cemeteries since 1999. Prior to that he was appointed the deputy general manager of Zhongfu in 1991. Mr. Wang worked as a teacher in the Shanghai Institute of Foreign Trade between 1980 and 1991. Mr. Wang was a teacher and counselor at local schools in Jiqing, Anhui between 1971 and 1980.

Mr. Wang is a renowned figure in the PRC death care services industry. Mr. Wang is an executive council member of the China Funeral Association and the head of the Cemetery Committee of China Funeral Association. Mr. Wang has completed the Senior Executive Program organized by the Faculty of Business Administration of the National University of Singapore in November 2001 and the China CEO Management Innovation Executive Program organized by Shanghai Jiaotong University in August 2004.

NON-EXECUTIVE DIRECTORS

Mr. Lin Hung Ming (林宏銘) (also known as Lin Hon Min), age 58, is the non-executive Director. Mr. Lin currently serves as a director of Shanghai FSY Industry Development, and has been a director of FSG Holding since June 2012. He has more than 19 years of experience in the death care services industry in the PRC.

Mr. Lin is also chairman of Taipei Trading Co., Ltd. since January 2009, executive member of the Importers and Exporters Association of Taipei since June 1997, vice chairman of Fortune Motors Co., Ltd. since June 2005, director of Mizuno (Taiwan) Co., Ltd. since April 1992, supervisor of G-Chou Enterprise Co., Ltd. since May 1990, director of Ruiji Investment Co., Ltd. (瑞基投資股份有限公司) since May 1990, director of Kao (Taiwan) Co., Ltd. since April 2004, director of Guozhu Rubber Co., Ltd. (國住橡膠股份有限公司) since May 1990, chairman of Taiwan Aichi Instruments Technology Co., Ltd. (台灣愛知儀錶科技股份有限公司) since October 2010, and supervisor of The Great Taipei Gas Corporation (TAIEX code: 9908) since June 1998.

Mr. Lin graduated with a bachelor's degree in engineering from the National Taiwan University in June 1978. He also obtained a master's degree in business administration and a master's degree of science in business administration (quasi-doctoral) from the University of Southern California in June 1980 and June 1981, respectively.

Mr. Lu Hesheng (**陸鶴生**), age 64, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 28 years of experience in the death care services industry in the PRC.

Since 2001, he serves as the director and general manager of Shanghai Nam Kwong Petro-Chemical Co., Ltd. Between 1991 and 2001, he was general manager of Zhongfu, chairman and general manager of China Zhongfu Petrochemical Industry Co., Ltd.* (上海中福石油化工實業有限公司), and vice chairman and general manager of Zhongfu. From 1986 to 1990, he was general manager of Shanghai Exhibition Centre Co., Ltd.* (上海展覽中心友聯公司).

From 1973 to 1985, Mr. Lu worked at the science and technology division, the information data department and the equipment supply department of Shanghai Petrochemical Company Ltd., and held the positions of a deputy secretary and the secretary to the Party Committee.

Mr. Lu graduated from Shanghai University of Engineering Science with a higher certificate in sales and exhibition in June 1990.

Mr. Huang James Chih-Cheng, age 55, is the non-executive Director. Mr. Huang has been the Chief Financial Officer of Big Earth Publishing, Boulder, Colorado, since 2011. Prior to that, Mr. Huang served as a member of the senior management of Pacific Millennium Holding Corporation from 1987 to 2011 such as Regional General Manager of Pacific Millennium (U.S.) Corporation from 2007 to 2011; General Manager of Pacific Millennium Asia Corp Communication Co Ltd, Shanghai from 2003 to 2006; Senior Vice President and General Manager of Pacific Millennium Co Ltd from 1990 to 1995; Operations Manager of Pacific Millennium Co Ltd, U.S.A. from 1987 to 1990; Regional General Manager of International Paper Pacific Millennium Co Ltd's for South East Asia region from 2002 to 2003; Chief Financial Officer of International Paper Pacific Millennium Co Ltd's from 2001 to 2002; and Chief Financial Officer of Pacific Millennium Paper Group from 1999 to 2001. Prior to joining Pacific Millennium Holding Corporation, Mr. Huang served as Corporate Accounting Manager at Electronic Data Systems in Dallas, Texas, from 1984 to 1987. He had also served as President of Energy System International, Beijing from 2003 to 2006; Member of the Board between 1994 and 2000 and subsequently elected as Chairman of the Board between 1999 and 2000 for Millennium Bank, San Francisco, California.

Mr. Huang graduated from McMaster University in Canada with a Bachelor's Degree in Economics in May 1982. He also completed an advanced management program sponsored by the Wharton School of Business at the University of Pennsylvania (U.S.A.) in March 1999. Mr. Huang has been a qualified certified public accountant in Texas (U.S.A.) since January 1989. Mr. Huang is currently not a practicing CPA.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Qunlin (**陳群林**), age 67, is the independent non-executive Director. Mr. Chen has been the president of China Funeral Association (中國殯葬協會) since 2004 and was the president of International Federation of Thanatologist Association (國際殯葬協會) from 2008 to 2010. Before that, Mr. Chen served as the director general of the Social Welfare and Social Affairs Department of the MCA (民政部社會福利和社會事務司) from 2001 to 2004 and the director of China Welfare Lottery Issuing Centre (中國福利彩票發行中心) from 1992 to 2001. Mr. Chen also served as the president of China Communications Press (人民交通出版社) from 1991 to 1992, secretary general of the Political Reform Research Office of the Chinese Communist Party Central Committee (中共中央政治研究室) from 1987 to 1990, secretary of the General Office and Deputy secretary general of the Party Committee of Guizhou Province (中共貴州省辦公廳) from 1976 to 1986. Before that, Mr. Chen also worked at the Commune and County Party Committee of Sinan County, Guizhou Province (貴州省思南縣公社、縣委工作) from 1970 to 1976.

Mr. Chen graduated from the Beijing Broadcasting Institute (北京廣播學院, now known as the Communication University of China 中國傳媒大學) majoring in journalism in July 1969.

Mr. Luo Zhuping (**羅祝平**), age 61, is the independent non-executive Director and chairman of the Remuneration Committee. Mr. Luo has held various positions in China Eastern Airlines (中國東方航空公司) since 1988. He served as the deputy chief and then chief of the enterprise management department of China Eastern Airlines from 1992 to 1997 and the deputy head of the share system office from 1993 to 1996. Mr. Luo served as the board secretary of China Eastern Airlines Corporation Limited (HKSE stock code: 670) for 15 years from December 1996 to April 2012. He became a Director of the China Eastern Airlines Corporation Limited from June 2004 to June 2013.

Mr. Luo graduated from the Faculty of Philosophy of Anhui Labor University (安徽勞動大學) in August 1979 and the Faculty of Law of Anhui University (安徽大學) in July 1986. Mr. Luo later received a Master degree from the Economics Department of Eastern China Normal University (華東師範大學) majoring in global economics in April 1994. In September 1998, he participated in an Executive Study Tour organized in the U.S. by the State Economic and Trade Commission (國家經濟貿易委員會) and Morgan Stanley. He also completed a CEIBS-Wharton Joint Program in Corporate Governance and Board of Directors in August 2008. Mr. Luo holds an independent director certificate issued by the Shanghai Stock Exchange in April 2012 and a corporate governance certificate issued by the Hong Kong Institute of Directors in November 2004.

Mr. Ho Man (**何敏**), age 44, is the independent non-executive Director and chairman of the Audit Committee. Mr. Ho has been an executive partner representative of a Chengdu-based private equity investment fund since December 2011. Prior to that, Mr. Ho worked for a Hong Kong based private fund management company during January 2010 to December 2013 and was a managing director and head of China growth and expansion capital of CLSA Capital Partners which he worked for during August 1997 to October 2009. Mr. Ho was the independent non-executive director and member of the audit committee of SCUD Group Limited (HKSE stock code: 1399) and Shanghai Tonva Petrochemical Co., Ltd. (HKSE stock code: 1103) from December 2006 to October 2009 and from September 2008 to October 2009, respectively. Mr. Ho has been the independent non-executive director, chairman of the audit committee and a member of the remuneration committee and nomination committee of Fantasia Holdings Group Co., Ltd. (HKSE stock code: 1777) since October 2009. Mr. Ho has over 16 years of working experience in private equity investment and finance.

Mr. Ho was awarded an EMBA degree from Tsinghua University and a master's degree in finance from the London Business School. He is also a Chartered Financial Analyst charterholder and a Certified Public Accountant.

Ms. Wu Jianwei (**吳建偉**), age 58, is the independent non-executive Director. Ms. Wu is also chairperson of the Compliance Committee and is responsible for overseeing the Group's compliance aspects. She has been an arbitrator of the Beijing Arbitration Commission, since July 2001. She has obtained a PRC lawyer qualification since November 1998.

Prior to joining the Group as Director, she was executive general manager of CITIC Securities Company Limited (stock code: SSE: 600030, SEHK: 6030) from July 2006 to June 2013. She was head of compliance at CITIC Securities Company Limited between November 2009 and June 2012. She was deputy general manager of the general office of China Life Reinsurance Company Ltd. (中國人壽再保險股份有限公司) between October 2004 and March 2005. She was deputy editor-in-chief of China Law magazine (中國法律) between July 1997 and July 2004. She was deputy office general manager of Huatai Insurance Company of China (華泰保險公司) between October 1996 and June 1997, responsible for legal affairs. She was a clerk, assistant judge and senior judge at the Civil Tribunal of the Supreme People's Court of the PRC between February 1982 and October 1996.

Ms. Wu has also been an independent director of a number of companies in China. She was Independent director of Lianyungang Ideal Group Co., Ltd. (連雲港如意集團股份有限公司) between June 2002 and May 2009. She was an independent director of Huadong Medicine Co., Ltd. (華東醫藥股份有限公司) between June 2003 and May 2009. She was also an independent director of Sanjiu Medical and Pharmaceutical Co., Ltd. (三九醫藥股份有限公司) between April 2005 and April 2008.

Ms. Wu was awarded a bachelor's degree in law by the Jilin University in April 1982. She was awarded a master's degree in civil and commercial laws by Renmin University of China in January1994. Ms. Wu also received training for independent directors from the China Securities Regulatory Commission in April 2002.

SENIOR MANAGEMENT

Mr. Wang Jisheng (王計生) is an executive Director and the general manager of the Group. For Mr. Wang's biography, see "Executive Directors" above.

Mr. Ge Qiansong (葛千松), age 65, is our deputy general manager and is responsible for our strategic planning and development. He has been deputy general manager and secretary to the board of directors of Shanghai FSY Industry Development since 1995. He was also the managing director of Henan FSY Industry Co., Ltd. between 2009 and 2012 and Chongqing Anle Services Co., Ltd. between 2002 and 2012. Mr. Ge has nearly 40 years of experience in the funeral service industry and has been in service with our Group for about 19 years. Mr. Ge worked for the Funeral Management Office of the Shanghai Civil Affairs Bureau from January 1977 to March 1992 as the deputy director and director of Shanghai Longhua Funeral House. From 1991 to 1993, Mr. Ge served in Xiao Ao (Japan) Co., Ltd. (日本曉奧公司), a company principally engaged in the provision of floral services, as a deputy general manager. He was the general manager of Shimazaki Co., Ltd. (日本島崎株式會社) from 1993 to 1995. Mr. Ge has been the chairman of the Technology and Cultural Committee of the China Funeral Association since 2012. Mr. Ge graduated with a diploma in politics from the Shanghai Normal University in July 1986. Mr. Ge completed the China CEO Management Innovation Executive Program organized by Shanghai Jiao Tong University in January 2005 and the continuous education courses organized by Tsinghua University in January 2008.

Ms. Yi Hua (伊華), age 46, is our deputy general manager and is responsible for our public relations, cultural branding development and human resources. She has been employed by Shanghai FSY Industry Development since 1996 and has been its deputy general manager since 2006. Ms. Yi has more than 18 years of experience in the funeral service industry in the PRC and has been in service with our Group for nearly 18 years. Prior to joining our Group, she was the manager of the public relations department of Hong Kong Tianhe Clothing Company Limited (香港天和製衣有限公司) from 1995 to 1996. From 1993 to 1995, Ms. Yi served as the head of the marketing department of Hollywood Real Estate (好萊塢房地產). She was an administrative assistant in the Shanghai Office of American Asia Pacific International Group (美國亞太國際集團上海辦事處) between 1990 and 1993. Before that, she worked at the Shanghai Tin Material Factory (上海鉛錫材料廠) as a secretary of the management office from 1988 to 1990. She is also the incumbent secretary of the Experts Committee of China Funeral Association. Ms. Yi is a well-recognized figure in business, having been awarded the Top Ten Chinese Publicist Gold Award in 2007, the honors of Boao Public Relations Ambassador in 2010 and the "Top 10 Outstanding Females of Asian Brands" in 2012. Ms. Yi had also been awarded 16 domestic and international planning awards during her 16 years of service in the cemetery industry. Ms. Yi is the secretary of the "Xing Xing Gang" Project (星星港專項基金) of the Shanghai Charity Foundation (上海慈善基金會). Ms. Yi received a diploma in technology records awarded by the Shanghai School of Administration and Management in July 1988. Ms. Yi completed the integrated marketing postgraduate course co-organized by the Business School of Fudan University and University of Hong Kong in 2003 and the China CEO Innovation Management Executive Program organized by Shanghai Jiao Tong University in August 2005.

Mr. Tan Li Kang (談理康), age 51, is our deputy general manager and is responsible for our Group's project development. Mr. Tan was appointed as assistant of the general manager in 1995 and has been promoted to deputy general manager of Shanghai FSY Industry Development since 1998. Mr. Tan was also appointed as the executive deputy general manager of Shanghai Nanyuan in 2007. Mr. Tan was further appointed as supervisor of Shanghai FSY Corporate Management Consultancy and director of Nanchang Hongfu in 2012. Mr. Tan is responsible for the construction, engineering and initial development of our Group's major projects. Mr. Tan has more than 19 years of experience in the funeral service industry in the PRC, and has been in service with our Group for nearly 19 years. From 1992 to 1995, Mr. Tan served as a manager in the Shanghai Office of Pacific Millennium Holdings Corporation (國際濟豐股份有限公司上海辦事處), which was principally engaged in the business of manufacturing paper and packaging materials. He worked in Jiangxi Fenyi Coal Mine Machinery Factory (江西省分宜煤礦電機廠) from 1982 to 1985 and from 1988 to 1992. Mr. Tan graduated from the Architecture Department of the University of Coal Mine Workers, Pingxiang, Jiangxi (江西萍鄉煤礦職工大學) in July 1988 and completed the postgraduate course in finance at the Business School of East China Normal University (華東師範大學商學院) in June 2003. Mr. Tan also completed the senior executive program at the National University of Singapore in November 2003. He received a master's degree in business administration from Macau University of Science and Technology in August 2004. Afterwards, Mr. Tan completed the China CEO Innovation Management Executive Program organized by Shanghai Jiao Tong University in May 2006 and received a certificate of achievement from the International Cemetery, Cremation & Funeral Association for the ICCFA Cemetery Training that Mr. Tan completed in 2007. Mr. Tan Li Kang is a relative of Mr. Tan Leon Li-an (談理安), our vice-chairman and executive Director.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Yibo (鄔亦波), age 43, is our deputy general manager of sales and marketing and corporate planning. Mr. Wu joined our Group in 2002 and had served in various capacities, including as manager of the enterprise research and development department of our Group; manager of the marketing department; manager of the administration and human resources department; assistant of the general manager; deputy general manager; executive deputy general manager and general manager of Shanghai FSY Industry Development. Mr. Wu has nearly 10 years of experience in sales management in the commercial field. Mr. Wu was awarded a bachelors' degree in arts (English) by the Shanghai Second Polytechnic University in July 1993.

Mr. Xu Yong (徐勇), age 55, is our deputy general manager, responsible for our Group's engineering, greenery, construction and planning aspects. Mr. Xu is responsible for our Group's engineering, construction, landscaping and greenery construction and management. Mr. Xu is also the chairman of our Group's trade union. Mr. Xu has over seven years of experience in the funeral service industry in the PRC and has been working for our Group for almost three years. Mr. Xu has over 30 years of experience in real estate development and construction management. Mr. Xu has been a registered senior operation manager with the National Credentials Committee of Senior Operation Manager since July 2005. Prior to joining our Group, Mr. Xu was the manager of Shanghai Lingang Group Shuyuan Company (上海臨港集團書院公司), deputy general manager of Shanghai Nanyuan (上海南院) and general manager of Shanghai Yixuan Industrial and Trading Co., Ltd. (上海逸絢工貿有限公司) from 2006 to 2011. He was the general manager of Zhongfang Beiyang Property Company (中房置業北陽房產公司) from 2001 to 2006. From 1993 to 2001, he was the manager of the project department and the executive deputy general manager of Shanghai City Kaicheng Property Complex Development Company (上海市開城置業綜合開發總公司). From 1980 to 1993, he was a deputy head of the workshop and the division head of organization and human resources of Shanghai Dongfeng Timber Factory (上海東風木材廠). From 1976 to 1979, Mr. Xu served in the PRC Liberation Army as a squad leader. Mr. Xu completed professional executive management studies at the Shanghai Administration College of the Party School under the Shanghai Committee of the CCP in July 1991. He also completed strategic management philosophy studies at the East China Normal University in June 1999.

Mr. Zhao Yu (趙宇), age 37, is the deputy general manager and is responsible for the Listing matters and Board secretary affairs, and was appointed as the joint company secretary on December 3, 2013. Mr. Zhao joined the Group in 2009. Mr. Zhao was a deputy general manager of the Group and is responsible for investor relations, corporate finance and corporate governance of the Group. Mr. Zhao has more than 11 years of working experience in the corporate finance industry. From 2002 to 2009, he served as deputy general manager of Fu Ji Food and Catering Services Holdings Limited (HKSE stock code: 1175) and general manager of Fu Ji Food Services Group Financial Management Company. Mr. Zhao was awarded a master's degree in business administration by the American University in London in February 2002. Prior to that, he obtained a bachelor's degree in finance and banking in June 1998 from the Dongbei University of Finance & Economics.

Mr. Li Heguo (李和國), age 48, is deputy general manager of strategic development, planning execution and major projects and acquisitions of the Group. Mr. Li joined the Group in 2013 and has over 7 years of experience in the death care services industry in the PRC. Prior to joining the Group, Mr. Li was an executive director and chief executive officer of ZMAY Holdings Limited (HKSE stock code: 8085) between June 2007 and January 2009. He was chairman and general manager of Beijing Hengfeng Real Estate Co., Ltd. (北京恒豐房地產有限公司) between April 2003 and June 2007. He was vice president of Hi Sun Technology (China) Limited (HKSE stock code: 0818) between October 2000 and March 2003. He was general manager of China Baoan Group Beijing Industrial Co., Ltd. (中國寶安集團北京實業公司) between December 1993 and October 2000. He was secretary of the president of China Baoan Group (中國寶安集團) between July 1992 and December 1993. He was a teacher at the School of Economics of Peking University between April 1991 and July 1992. Mr. Li was awarded a bachelor's degree in economics by the Peking University in July 1988.

Mr. Luk Wai Keung (陸偉強), age 49, is the Group's chief financial officer. Mr. Luk is a professional accountant, having been a state of Washington Certified Public Accountant license holder since October 2005. Mr. Luk is also a Chartered Financial Analyst at the Association for Investment Management and Research since September 1999 and a member of the Institution of Civil Engineers since December 1990. He has over 15 years of professional experience in the financial field. Mr. Luk was the chief financial officer of Larry Jewellery International Company Limited (HKSE stock code: 8351) from July 2011 to October 2013. From August 2007 to January 2011, he served as the vice president of the finance and business development of SHV (China) Investment Company Limited. He was chief financial officer of Synergis Holdings Limited (HKSE stock code: 2340) between May 2006 and June 2007. Mr. Luk also served as associate director of corporate finance at PricewaterhouseCoopers between January 1996 and April 2006. He served as an engineer in various civil engineering consultancy firms between 1986 and 1995. Mr. Luk was awarded a bachelor's degree in science (engineering) by the University of Hong Kong in November 1986. He was awarded a master's degree in business administration by the Australian Graduate School of Management, University of New South Wales in May 1994.

The Board presents the directors' report together with the audited consolidated financial statements of the Group for the year ended December 31, 2013.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are mainly engaged in the sale of burial plots, provision of funeral service and provision of cemetery maintenance services.

RESULTS OF OPERATIONS

The results of the Group for the year ended December 31, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2010 and 2013 is set out on page 4 in the section "Financial Summary" of this Annual Report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2013.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 39 to the audited consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2013, purchases from the Group's five largest suppliers accounted for 73.29% (2012: 75.5%) of the Group's total purchases and purchases from our single largest supplier accounted for 22.7% (2012: 25.1%) of the Group's total purchases.

During the year ended December 31, 2013, the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended December 31, 2013 are set out in note 16 to the audited consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the audited consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended December 31, 2013 are set out in notes 30 and 41 respectively to the audited consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the Company's reserves available for distribution to the Shareholders, calculated in accordance with the provisions of the Companies Law, as at December 31, 2013, are set out in note 41 to the audited consolidated financial statements.

BORROWINGS

Details of the borrowings of the Group are set out in the section headed "Management Discussion and Analysis" in this Annual Report and note 27 to the audited consolidated financial statements.

TAXATION

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares of the Company, they are advised to consult their tax adviser.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to December 31, 2013.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the law of Cayman Islands being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholder.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company's Shares (after the exercise of the Over-allotment Option (as defined in the Prospectus)), excluding Listing related expenses, amounted to approximately HK$1,758.9 million and the net proceeds are intended to be applied in the manner consistent with that set out in the Prospectus.

DIRECTORS

The Board as at December 31, 2013 and the date of this Annual Report comprises:

Executive Directors

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

Non-executive Directors

Mr. Lin Hung Ming (also known as Lin Hon Min)
Mr. Lu Hesheng
Mr. Huang James Chih-Cheng

Independent Non-executive Directors

Mr. Chen Qunlin
Mr. Luo Zhuping
Mr. Ho Man
Ms. Wu Jianwei

The biographical details of the Directors and senior management are set out under the section "Profiles of Directors and Senior Management" of this Annual Report.

In accordance with Article 112 of the Articles of Association, Mr. Wang Jisheng, Mr. Lin Hung Ming (also known as Lin Hon Min) and Mr. Lu Hesheng, being appointed as Directors by the Board on January 30, 2013, shall retire at the Annual General Meeting and, being eligible, have offered themselves for re-election.

In accordance with Article 108 and Article 111 of the Articles of Association, Mr. Bai Xiaojiang, Mr. Tan Leon Li-an and Mr. Huang James Chih-Cheng shall retire by rotation at the Annual General Meeting and, being eligible, have offered themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company on December 3, 2013 for a term of three years commencing from the Listing Date, each of such service agreements may be terminated by not less than one month's notice in writing served by either party on the other.

Each of the non-executive Directors and independent non-executive Directors was appointed the Board pursuant to the respective letters of appointment dated December 3, 2013, for a term of three year commencing from the Listing Date, and each of such appointments may be terminated by not less than one month's notice in writing served by either party on the other.

Save as disclosed above, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than the normal statutory compensation.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended December 31, 2013 or at any time during the year ended December 31, 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this Annual Report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Each of FSG Holding and Chief Union has provided annual confirmations in respect of the compliance with non-competition undertaking (the "**Undertaking**") given by them.

The independent non-executive Directors have also reviewed the compliance by each of FSG Holding and Chief Union with the Undertaking during the period from the Listing Date to December 31, 2013. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of FSG Holding and Chief Union of the Undertaking given by them.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2013.

REMUNERATION OF DIRECTORS

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has established a Remuneration Committee to formulate remuneration policies. Directors' remuneration is subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. Details of the remuneration of the Directors are set out in Note 12 to the audited consolidated financial statements.

SHARE OPTION SCHEMES

The Company adopted the Share Option Scheme on December 3, 2013 and shall be valid and effective for a period of 10 years from that 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 director or employee, or any advisor, consultant, suppliers, customers or shareholder of any member of the Group (the "**Eligible Participants**").

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. The maximum number of Shares available for issue under options which may be granted under the Share Option Scheme or other share option scheme adopted by the Company must not in aggregate exceed 10% of the Shares in issue immediately following completion of the Global Offering (but taking no account of any Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option (as defined in the Prospectus)), being 200,000,000 Shares. The total number of Shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an Eligible Participant in any 12-month period shall not exceed 1% of the number of Shares in issue as at the date of grant unless approved by the Shareholders in general meeting.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be determined by the Board provided that it shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.

Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

For the year ended December 31, 2013, no option was granted by the Company under the Share Option Scheme.

As at the date of this Annual Report, the total number of Shares available for issue under the Share Option Scheme was 200,000,000 Shares representing 9.64% of the issued share capital of the Company.

PRE-IPO SHARE OPTION SCHEME

The purpose of the Pre-IPO Share Option Scheme is to provide Eligible Participants an opportunity to have a personal stake in the Company and help motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Group, and reward any individual who is in the opinion of the Board has contributed or will contribute to the growth and development of the Group. The principal terms of the Pre-IPO Share Option Scheme, which was adopted by the Company on March 10, 2013, are substantially the same as the terms of the Share Option Scheme except that:

(a) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 100,000,000 Shares representing approximately 4.8% of the issued share capital of the Company as at the date of this Annual Report;

(b) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Exercise period	Maximum percentage of Shares underlying the options exercisable
From August 8, 2015 to August 7, 2017	50% of the total number of Shares underlying the options granted
From August 8, 2016 to August 7, 2017	50% of the total number of Shares underlying the options granted

(c) save for the options which have been granted before the Listing Date, no further options have been/will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and

(d) each option granted under the Pre-IPO Share Option Scheme has a four-year exercise period from August 8, 2013 to August 7, 2017.

As at the date of this Annual Report, options to subscribe to an aggregate of 57,613,169 Shares (representing approximately 2.8% of the total issued share capital of the Company) at an exercise price of RMB0.9, which equal to a 63.4% discount to the Offer Price (as defined in the Prospectus), being the mid-point of the Offer Price range stated in the Prospectus, have been granted to 199 participants by the Company at the consideration of HK$1.00 under the Pre-IPO Share Option Scheme. This included two Directors, seven members of the senior management of the Group (excluding the member of the senior management of the Group who is also a Director receiving options), and 190 other employees of the Group.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme:

Grantee	Total number of Ordinary Shares underlying options granted on August 8, 2013	Number of Ordinary Shares underlying options exercised during the year ended December 31, 2013	Number of Ordinary Shares underlying options cancelled during the year ended December 31, 2013	Number of Ordinary Shares underlying options lapsed during the year ended December 31, 2013	Number of Ordinary Shares underlying options outstanding as at December 31, 2013
Directors					
Bai Xiaojiang (Chairman and executive Director)	3,453,452	—	—	—	3,453,452
Wang Jisheng (General Manager and executive Director)	3,453,452	—	—	—	3,453,452
Substantial Shareholder					
Ge Qiansong (Senior management)	2,877,877	—	—	—	2,877,877
Other employees (in aggregate)	47,828,388	—	—	—	47,828,388
Total	**57,613,169**	**—**	—	—	**57,613,169**

Except for the grantees set out above, none of the grantees under the Pre-IPO Share Option Scheme is a connected person of the Group as defined under the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at December 31, 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

(i) Interest in the Shares

Name of Directors	Capacity	Nature of Interest	Number and class of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. BAI Xiaojiang	Interest in a controlled corporation (Note 1)	Long position	96,600,000 Ordinary	4.66%
Mr. WANG Jisheng	Interest in a controlled corporation (Note 2)	Long position	96,600,000 Ordinary	4.66%
Mr. LU Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000 Ordinary	1.33%

Notes:

1. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.66% of the issued share capital of the Company.

2. Wang Jisheng is interested in the entire issued share capital of Peaceful Field, which in turn is interested in approximately 4.66% of the issued share capital of the Company.

3. Lu Hesheng is interested in the entire issued share capital of Grand Fire, which in turn is interested in approximately 1.33% of the issued share capital of the Company.

(ii) Interest in underlying Shares of share options

The Directors of the Company have been granted options under the Company's Pre-IPO Share Option Scheme, details of which are set out in "Pre-IPO Share Option Scheme" above.

Save as disclosed above, at no time during the year ended December 31, 2013, the Directors and chief executive (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2013, so far as the Directors or the chief executive were aware, the Substantial Shareholders, other than the Directors or chief executive 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	Number and class of Shares	Approximate percentage of the issued share capital of the Company (%)
FSG Holding	Beneficial owner	Long position	525,000,000 Ordinary	25.30%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	525,000,000 Ordinary	25.30%
Chief Union	Beneficial owner (Note 2)	Long position	483,000,000 Ordinary	23.28%
Fulechuan	Interest in a controlled corporation (Note 3)	Long position	483,000,000 Ordinary	23.28%
Zhongfu	Interest in a controlled corporation (Note 4)	Long position	483,000,000 Ordinary	23.28%

Name of substantial shareholders	Capacity	Nature of Interest	Number and class of Shares	Approximate percentage of the issued share capital of the Company (%)
Hongfu	Interest in a controlled corporation (Notes 4, 5, 6)	Long position	483,000,000 Ordinary	23.28%
NGO 1	Interest in a controlled corporation (Notes 5, 6)	Long position	483,000,000 Ordinary	23.28%
NGO 2	Interest in a controlled corporation (Notes 5, 6)	Long position	483,000,000 Ordinary	23.28%
Double Riches	Beneficial owner	Long position	119,445,000 Ordinary	5.76%
Ge Qiansong	Interest in a controlled corporation (Note 7)	Long position	119,445,000 Ordinary	5.76%

Notes:

1. Mr. Tan Tize Shune (also known as "Tan Chih Chun"), the father of 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 25.30% of the issued share capital of the Company in which FSG Holding is interested in.

2. Chief Union is a direct wholly-owned subsidiary of Fulechuan and Fulechuan will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.

3. Fulechuan is a direct wholly-owned subsidiary of Zhongfu and Zhongfu will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.

4. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.

5. Hongfu is owned by NGO 1 as to 50% and NGO 1 will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.

6. Hongfu is owned by NGO 2 as to 50% and NGO 2 will be deemed or taken to be interested in approximately 23.28% of the issued share capital of the Company in which Chief Union is interested in.

7. Ge Qiansong is interested in approximately 34.66% of the issued share capital of Double Riches and therefore Ge Qiansong will be deemed or taken to be interested in approximately 5.76% of the issued share capital of the Company in which Double Riches is interested in.

Save as disclosed above, as at December 31, 2013, so far was known to the Directors, no other persons (other than the Directors or chief executives) had an interest or short position in the shares and underlying shares of the Company 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.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 35 to the audited consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules during the period from the Listing Date to December 31, 2013.

CONNECTED TRANSACTION

Shandong World Trade Centre and Shandong FSY Development entered into a loan agreement on January 1, 2013, pursuant to which Shandong World Trade Centre provided a shareholder loan to Shandong FSY Development. As at December 31, 2013, the loan remaining outstanding amounted to approximately RMB38,173,000. The interest rate is approximately 9.18% per annum. Shandong World Trade Centre expects to convert its outstanding loans into registered capital of Shandong FSY Development following the Global Offering.

The reason for entering into the shareholder's loan with Shandong World Trade Centre (the "**Loan**") was for the purpose of acquiring land for the cemetery operation of Shandong FSY Development. In considering the funding requirement for payment of the land premium, Shandong World Trade Centre had considered injecting the funding directly as equity into registered capital of Shandong FSY Development to facilitate payment of the land premium. However, in order to expedite the process, Shandong World Trade Centre had decided to provide its funding to Shandong FSY Development by way of the Loan instead of equity due to the additional approval process required in using equity financing as the funding method. Since we acknowledged that as a matter of best practice for the purposes of effecting the Listing application the Loan should be repaid, we have explored different ways to repay the Loan. As agreed between the Company and Shandong World Trade Centre, repaying the Loan by way of cash is not at the best interest of Shandong FSY Development as compared to capitalizing the Loan into equity. As a result, we and Shandong World Trade Centre have agreed that they will capitalize the Loan into equity interest of Shandong FSY Development (the "**Loan Capitalization Transaction**") in order to repay the Loan. Given that Shandong World Trade Centre is a state-owned enterprise of the PRC, the Loan Capitalization Transaction needs to be approved by the Shandong State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會) ("**Shandong SASAC**") and it is currently undergoing the required approval process. Besides, the Loan Capitalization Transaction requires the execution and approval of various transaction documents such as board and shareholder resolutions, articles of associations, shareholders' agreement etc. It cannot be and was not completed before Listing. Given that Shandong World Trade Centre is obtaining the approvals from the Shandong SASAC and such approvals may take time to obtain, we currently expect the completion of the Loan Capitalization Transaction may take place within one year after Listing. In the event completion cannot take place within one year after Listing, we undertake to explore other financing channels such as bank borrowing to repay the shareholder loan.

Shandong World Trade Centre is a connected person of the Company as it is a substantial shareholder of Shandong FSY Development and it owns 50% equity interest in Shandong FSY Development. Upon Listing and prior to the conversion, the Loan constituted a connected transaction.

The Directors are of the view that the Loan, being a form of financial assistance (as defined under the Listing Rules), was provided by Shandong World Trade Centre for our benefit on normal commercial terms where no security over the Company's assets was granted in respect of the Loan. The Loan is exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

AUDITOR

Deloitte Touche Tohmatsu was appointed as auditor of the Company since Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

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

Hong Kong
March 26, 2014

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the period from the Listing Date to December 31, 2013 (the "**Relevant Period**").

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Shares of the Company commenced trading on the Stock Exchange on December 19, 2013. Since Listing, the Board is of opinion that the Company had adopted, applied and complied with the code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by Directors. Upon specific enquiries of all the Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the Relevant Period.

To comply with the code provision A.6.4 of the CG Code, the Company established and adopted a Code for Securities Transactions by Relevant Employees, on terms no less exacting than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of inside information in relation to the Company or its securities because of their offices or employments.

No incident of non-compliance with the Mode Code by the Directors and Relevant Employees was noted by the Company during the Relevant Period.

THE BOARD OF DIRECTORS

Board composition

As at December 31, 2013, our Board consisted of ten Directors including:

Executive Directors

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

Non-executive Directors

Mr. Lin Hung Ming (also known as Lin Hon Min)
Mr. Lu Hesheng
Mr. Huang James Chih-Cheng

Independent Non-executive Directors

Mr. Chen Qunlin
Mr. Luo Zhuping
Mr. Ho Man
Ms. Wu Jianwei

During the Relevant Period, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and independent non-executive Directors representing at least one-third of the Board.

None of the Directors has any relationship (including financial, business, family or other material/relevant relationship) with any other Directors.

Board and Board Committees Meetings and Shareholders' Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held as least four times a year. No Board meeting, Board committees meetings and general meeting were held during the Relevant Period since the Company was listed on the Stock Exchange on December 19, 2013. However, subsequent to the end of Relevant Period and up to the date of this Annual Report, a Board meeting, an Audit Committee meeting, a Compliance Committee meeting, a Remuneration Committee meeting and a Nomination Committee meeting of the Company were held on March 26, 2014 to approve the Group's final results for the year ended December 31, 2013 and review the relevant operation and compliance of the Company. The Company has already set a schedule for its regular Board meetings, Board committee meetings and annual general meeting in the year 2014 in observance of the CG Code.

Appointment, Re-election and Removal of Directors

Each of the executive Directors has entered into a service agreement with the Company on December 3, 2013 for a term of three years commencing from the Listing Date.

Each of the non-executive Directors and independent non-executive Directors was appointed to the Board pursuant to the respective letters of appointment dated December 3, 2013 for an initial term of three years commencing from the Listing Date.

The procedures and process of appointment, re-election and removal of Directors are governed by the Company's Articles of Association. The Board, with the recommendation of the Nomination Committee, is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of independent non-executive Directors.

The appointment of each of the Directors is subject to his re-election at an annual general meeting upon retirement. The Company's Articles of Association provides that any Director appointed by the Board to fill a casual vacancy in the Board or as an additional member of the Board shall hold office only until the following general meeting of the Shareholders of Company and shall then be eligible for re-election at such meeting.

In accordance with the Company's Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and, being eligible, offer themselves for re-election.

The Shareholders of the Company may, at any general meetings convened and held in accordance with the Company's Articles of Association, remove a Director by ordinary resolution at any time before the expiration of his or her period of office notwithstanding anything to the contrary in the Company's Articles of Association or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The reporting responsibilities of our Company's external auditor on the financial statements of the Group are set out in the "Independent Auditor's Report" in this Annual Report.

Responsibilities of and Delegation by the Board

The Board is responsible for the overall leadership of the Group, overseas the Group's strategic decisions and monitors business and performance.

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group. A memorandum on respective functions of the Board and management of the Company have been established in writing.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Independent Non-Executive Directors

Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei, being independent non-executive Directors, have made confirmations of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged trainings for Directors in the form of seminar and provision of training materials. All Directors have provided a record of the training they received to the Company.

During the year ended 31 December 2013, all Directors, namely, Mr. Bai Xiaojiang, Mr. Tan Leon Li-an, Mr. Wang Jisheng, Mr. Lin Hung Ming (also known as Lin Hon Min), Mr. Lu Hesheng, Mr. Huang James Chih-Cheng, Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei, have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group.

Chairman and General Manager

During the Relevant Period, the positions of the Chairman and the General Manager were held separately. The role of Chairman was held by Mr. Bai Xiaojiang, and General Manager was held by Mr. Wang Jisheng. The Chairman provides leadership and governance for the Board so as to create the conditions for the effective performance of the Board as a whole and effective contributions by individual Director and to ensure that the Board performs its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner. The General Manager has the delegated power to manage the Company and to oversee the activities of the Company on a day-to-day basis.

The division of responsibilities between the Chairman and the General Manager is defined and established in writing.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the code provisions of the corporate governance code set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report under the Listing Rules.

BOARD COMMITTEES

The Board has established four committees and has delegated various responsibilities to the committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Compliance Committee. All the Board committees perform their distinct roles in accordance with their respective terms of reference which are available to Shareholders on the websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Company established the Audit Committee on December 3, 2013 with effect from the Listing, with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, the internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee currently comprises Ho Man and Luo Zhuping, the independent non-executive Directors, and Huang James Chih-Cheng, the non-executive Director. Ho Man is the chairman of the Audit Committee.

As the Company was listed on the Stock Exchange on December 19, 2013, no Audit Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this Annual Report, a meeting of the Audit Committee was held on March 26, 2014 to review the Group's financial result for the year ended December 31, 2013 for submission to the Board for approval, review internal control and risk management system of the Group and oversee the audit process.

Remuneration Committee

The Company established the Remuneration Committee on December 3, 2013 with effect from the Listing, with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board regarding the compensation of the executive Directors and senior management. In addition, the Remuneration Committee conducts reviews of the performance, and determines the compensation structure of the senior management of the Company.

The Remuneration Committee currently comprises Luo Zhuping and Chen Qunlin, the independent non-executive Directors, and Tan Leon Li-an, the vice-chairman and executive Director. Luo Zhuping is the chairman of the Remuneration Committee.

As the Company was listed on the Stock Exchange on December 19, 2013, no Remuneration Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this Annual Report, a meeting of the Remuneration Committee was held on March 26, 2014 to review the performance and remuneration packages of individual Directors, and senior management.

Compliance Committee

The Company established the Compliance Committee on December 3, 2013 with effect from the Listing. The scope of work of the Compliance Committee is to review and monitor the legal and compliance aspects of the Group to ensure that the Group is in compliance with all applicable laws and regulations and corporate governance policy. The Compliance Committee has the power to seek external counsel's advice.

The Compliance Committee currently comprises Wu Jianwei, Chen Qunlin, Luo Zhuping and Ho Man, all being the independent non-executive Directors. Wu Jianwei is the chairman of the Compliance Committee.

As the Company was listed on the Stock Exchange on December 19, 2013, no Compliance Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this Annual Report, a meeting of the Compliance Committee was held on March 26, 2014 to review the Group's policies and practices on compliance with legal and regulatory requirements, the implementation of the compliance management system and the functions of the internal control department, the codes of conduct applicable to employees and Directors, and the Group's policies and practices on corporate governance.

Nomination Committee

The Company established the Nomination Committee on December 3, 2013 with effect from the Listing, with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are to formulate nomination policies for consideration of the Board, implement the nomination policies laid down by the Board, and make recommendations to the Board to fill vacancies on the same.

The Nomination Committee currently comprises Bai Xiaojiang, the chairman and executive Director, Luo Zhuping and Chen Qunlin, the independent non-executive Directors. Bai Xiaojiang is the chairman of the Nomination Committee.

As the Company was listed on the Stock Exchange on December 19, 2013, no Nomination Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this Annual Report, a meeting of the Nomination Committee was held on March 26, 2014 to review the structure, size and composition (including the skills, knowledge and experience) of the Board and the board diversity policy, assess the independence of independent non-executive Directors and make recommendations to the Board on the proposal of re-appointment of Directors at the forthcoming AGM.

BOARD DIVERSITY

With a view to enhancing Board effectiveness and corporate governance, the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Company adopted the Board Diversity Policy with measurable objectives before the Listing. The Nomination Committee evaluates the balance and blend of skills, experience and diversity of perspectives of the Board. Selection of candidates is based on a range of diversity perspectives, including but not limited to age, cultural and educational background, professional and industry experience, skills, knowledge, ethnicity and other qualities essential to the Company's business, and merit and contribution that the selected candidates will bring to the Board. The Board will review such measurable objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Details of the remuneration of the Directors are set out in Note 12 to the audited consolidated financial statements. Save as disclosed therein, there is other 8 individuals of senior management. Pursuant to paragraph B.1.5 of the CG Code, their remuneration by band for the year ended December 31, 2013 is set out below:

Remuneration band	**Number of individuals**
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	3

EXTERNAL AUDITOR'S REMUNERATION

For the year ended December 31, 2013, the remunerations paid or payable to the external auditor in respect of its audit services and non-audit services provided to the Group are approximately RMB2,800,000 and RMB7,300,000, respectively. The amount for 2013 non-audit services comprised mainly the reporting accountant's work in connection with the Campany's Global Offerings. The Audit Committee was satisfied that the non-audit services in 2013 did not affect the independence of the auditors.

INTERNAL CONTROL

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. The Group has set up the internal control department and engaged independent internal control consultant to review the internal control systems of the Group.

The internal control are reviewed and assessed on an on-going basis by the executive Directors, and will be further reviewed and assessed at least once each year by the Board.

JOINT COMPANY SECRETARIES

The joint company secretaries, Mr. Zhao Yu ("**Mr. Zhao**") and Ms. Wong Wai Ling ("**Ms. Wong**"), have been appointed by the Board in December 2013. Mr. Zhao is the deputy general manager of the Group and is responsible for investor relations, corporate finance and corporate governance of the Group. Ms. Wong is the Assistant Vice President of a corporate service provider, SW Corporate Services Group Limited, and assists Mr. Zhao in company secretarial affairs. Ms. Wong's primary corporate contact person at the Company is Mr. Zhao.

Mr. Zhao and Ms. Wong have taken the relevant professional training on review of Listing Rules and other compliance requirements.

SHAREHOLDERS' RIGHTS

The Company encourages Shareholders to attend Shareholders' meetings. Directors, chairman of each of the Audit Committee, Remuneration Committee, Nomination Committee, Compliance Committee (or a delegated member of the Committee), chairman of the independent board committee (if any) and management will attend the annual general meeting to answer queries about the Group's business.

In 2014, the Company will convene the first AGM after Listing. The AGM will provide an ideal chance for communication between the Board and the Shareholders. The Chairmen of the Board, Audit Committee, Remuneration Committee, Nomination Committee, Compliance Committee (or a delegated member of the Committee) and the Company's external auditor will be present at the AGM held on May 15, 2014, to answer Shareholders' inquiries.

The Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the Article 64 of Articles of Association of the Company, extraordinary general meeting shall be convened on the requisition of one or more Shareholders of the Company holding at the date, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary at the headquarter of the Company in the PRC, which is presently situated at Room 1306, No. 88 Cao Xi Road North, Shanghai, China 200030, for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition and signed by the requisitionist(s) (the "**Requisitionist(s)**"). The request will be verified with the Company's Hong Kong Share Registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the request has been verified not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The Procedures and Contact Details for Putting Forward Proposals at Shareholders' Meeting

The Company holds general meetings which offer a valuable forum for dialogue and interaction with management. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at general meetings for and on their behalf if they are unable to attend the general meetings. Shareholders may put forward proposals at general meetings of the Company in the same manner as set out above.

Shareholders may also put forward their enquiries to the Board at the general meetings of the Company. The Board members, chairmen or members of respective Board committees, and external auditor of the Company and such other person as the Board deems appropriate shall attend the general meetings of the Company to respond to questions addressed to the Company. In particular, management of the Company shall ensure the external auditor of the Company attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. The chairman of the independent Board committee (if any) shall be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent Shareholders' approval.

Investor Relations and Communications with Shareholders

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Hong Kong Share Registrar. The contact details for the Hong Kong Share Registrar are:

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: (852) 2862 8555
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk
Website: www.computershare.com

To contact the Company in relation to your query on investor relations, or for Shareholders who intend to put forward their enquiries about the Company to the Board, the contact details are as follows:

Name: Yuan Yaqin
Telephone: +86 21 33637583
Email: Yuanyaqin@shfsy.com

Constitutional Documents

During the Relevant Period, there has been no change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FU SHOU YUAN INTERNATIONAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the 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 59 to 137, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 26, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	8	**611,811**	479,977
Cost of sales and services		**(120,152)**	(93,659)
Gross profit		**491,659**	386,318
Other income and gains, net	9	**29,432**	9,789
Distribution and selling expenses		**(105,982)**	(95,214)
Administrative expenses		**(122,951)**	(104,062)
Finance costs	10	**(5,281)**	(10,837)
Other expenses		**(26,501)**	—
Share of profit of an associate	20	**—**	8,638
Profit before taxation	11	**260,376**	194,632
Income tax expense	13	**(70,296)**	(56,431)
Profit and total comprehensive income for the year		**190,080**	138,201
Profit and total comprehensive income attributable to:			
Owners of the Company		**167,255**	124,270
Non-controlling interests		**22,825**	13,931
		190,080	138,201
		RMB cents	RMB cents
Earnings per share – Basic	15	**11**	8
– Diluted	15	**11**	8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property and equipment	16	**187,667**	121,533
Intangible assets	17	**13,474**	12,541
Cemetery assets	18	**440,531**	337,865
Restricted deposits	19	**19,506**	18,159
Interests in an associate	20	**—**	45,120
Deferred tax assets	21	**31,093**	32,910
Goodwill	22	**28,102**	18,507
		720,373	586,635
Current assets			
Inventories	23	**182,680**	111,164
Other receivables	24	**21,086**	37,765
Amounts due from related parties	36(a)	**—**	12,798
Bank balances and cash	25	**1,544,012**	286,860
		1,747,778	448,587
Current liabilities			
Trade and other payables	26	**171,321**	155,538
Deferred income	28	**11,629**	8,419
Dividends payable		**159,500**	35,983
Amounts due to related parties	36(b)	**—**	65,476
Income tax liabilities		**130,628**	93,211
Borrowings	27	**39,050**	50,550
		512,128	409,177
Net current assets		**1,235,650**	39,410
Total assets less current liabilities		**1,956,023**	626,045

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Deferred income	28	**142,967**	127,445
Borrowings	27	**—**	4,100
Amounts due to related parties	36(b)	**—**	36,175
Loans from non-controlling interests	37	**38,173**	45,889
Deferred tax liabilities	21	**29,946**	31,434
		211,086	245,043
Net assets		**1,744,937**	381,002
Capital and reserves			
Share capital	29	**121,158**	—
Reserves	30	**1,458,960**	243,087
Equity attributable to owners of the Company		**1,580,118**	243,087
Non-controlling interests		**164,819**	137,915
Total equity		**1,744,937**	381,002

The consolidated financial statements on page 59 to 137 were approved and authorized for issue by the Board of Directors on March 26, 2014 and are signed on its behalf by:

Bai Xiaojiang
DIRECTOR

Wang Jisheng
DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note 30)	Statutory surplus reserve RMB'000 (note 30)	Other reserve RMB'000 (note 30)	Share option 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, 2012	–	–	5,000	35,652	–	–	163,885	204,537	76,111	280,648
Profit and total comprehensive income for the year	–	–	–	–	–	–	124,270	124,270	13,931	138,201
Contributions from-non-controlling interests	–	–	–		–	–	–	–	500	500
Transfer to statutory reserve	–	–	–	15,007	–	–	(15,007)	–	–	–
Acquisition of subsidiaries (note 32(b) & (c))	–	–	–	–	–	–	–	–	56,573	56,573
Dividends recognized as distributions (note 14)	–	–	–	–	–	–	(85,720)	(85,720)	–	(85,720)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(9,200)	(9,200)
At December 31, 2012	–	–	5,000	50,659	–	–	187,428	243,087	137,915	381,002
Profit and total comprehensive income for the year	–	–	–	–	–	–	167,255	167,255	22,825	190,080
Deemed contribution from the shareholders	–	–	79,667	–	–	–	–	79,667	–	79,667
Acquisition of additional interest in existing subsidiaries	–	–	–	–	26,784	–	–	26,784	(55,472)	(28,688)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	1,524	1,524
Acquisition of a subsidiary (note 32(a))	–	–	–	–	–	–	–	–	77,929	77,929
Dividends recognized as distributions (note 14)	–	–	–	–	–	–	(159,500)	(159,500)	–	(159,500)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(19,902)	(19,902)
Issue of shares at premium through initial public offerings	30,290	1,270,575	–	–	–	–	–	1,300,865	–	1,300,865
Transaction costs attributable to issue of new shares	–	(84,616)	–	–	–	–	–	(84,616)	–	(84,616)
Capitalization of share premium	90,868	(90,868)	–	–	–		–	–	–	–
Share based compensation	–	–	–	–	–	6,576	–	6,576	–	6,576
Transfer to statutory reserve	–	–	–	14,006	–	–	(14,006)	–	–	–
At December 31, 2013	**121,158**	**1,095,091**	**84,667**	**64,665**	**26,784**	**6,576**	**181,177**	**1,580,118**	**164,819**	**1,744,937**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**260,376**	194,632
Adjustments for:		
Finance costs	**5,281**	10,837
Interest income	**(6,294)**	(7,304)
Depreciation of property and equipment	**16,335**	11,502
Amortization of cemetery assets	**10,902**	7,976
Amortization of intangible assets	**431**	340
Net gain on disposal of property and equipment	**(590)**	(65)
Gain on deemed disposal of an associate (note 32(a))	**(16,428)**	—
Expense recognized in respect of equity-settled share based payments	**6,576**	—
Share of profits of associates	**—**	(8,638)
Operating cash flows before movements in working capital	**276,589**	209,280
Increase in restricted deposits	**(1,347)**	(1,226)
Increase in cemetery assets and inventories	**(72,954)**	(20,998)
Decrease (increase) in other receivables	**(9,509)**	15,379
Increase in trade and other payables	**4,415**	9,104
Increase in deferred income	**18,732**	11,031
Cash generated from operations	**215,926**	222,570
Income taxes paid	**(54,245)**	(45,167)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**161,681**	177,403
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	**(74,527)**	(23,491)
Repayment from related parties	**—**	61,628
Payment to related parties	**(240)**	(43,397)
Purchase of intangible assets	**(1,364)**	(177)
Proceeds on disposal of property and equipment	**6,817**	1,930
Advance to independent third parties	**(35,727)**	(3,894)
Repayment from independent third parties	**45,817**	—
Acquisition of subsidiaries (note 32)	**38,788**	(20,111)
Dividends received from associates	**—**	6,218
Repayment from non-controlling interests	**6,893**	—
Interest received	**8,401**	7,731
NET CASH USED IN INVESTING ACTIVITIES	**(5,142)**	(13,563)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**25,000**	16,800
Repayment of bank borrowings	**(33,600)**	(6,027)
Repayment of other borrowings	**(7,000)**	(10,000)
Advance from related parties	**30,429**	18,628
Repayment to related parties	**(37,690)**	(7,337)
Loans from non-controlling interests	**3,638**	—
Repayments to non-controlling interests	**(10,900)**	(8,683)
Acquisition of additional interest in existing subsidiaries	**(24,193)**	(4,495)
Interest paid	**(10,300)**	(11,264)
Capital contributions from non-controlling interests	**1,324**	500
Dividends paid to non-controlling interests	**(19,902)**	(9,200)
Dividends paid to owners of the Company	**(32,442)**	(77,800)
Proceeds from issue of ordinary shares	**1,300,865**	—
Payment of listing related expense	**(84,616)**	—
NET CASH GENERATED FROM(USED IN) FINANCING ACTIVITIES	**1,100,613**	(98,878)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,257,152**	64,962
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**286,860**	221,898
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,544,012**	286,860

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 Law of the Cayman Islands, and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on December 19, 2013. The addresses of the registered office and the principal place of business of the Company are disclosed in the annual report. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the sale of burial plots, provision of funeral services and provision of cemetery maintenance services (the "Core Business") as set out in note 39.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Historically, the Core Business was owned by two founding shareholders of the Group, namely China Zhongfu Industrial Co., Ltd. (中國中福實業有限公司, "Zhongfu") and Anhui Anhe Investment Consultancy Co., Ltd. (安徽安合投資諮詢有限公司, "Anhe") (the "Founding Shareholders"). The Founding Shareholders, through direct investment and several nominee arrangements, agreed to follow a 50-50 shareholding structure in relation to all businesses undertaken by the Group. This shareholding structure continued until 2006 when each of the Founding Shareholders transferred a 15% interest of the Group to nine senior managers of the Group (the "Initial Group Individual Shareholders") and acted as nominees for the Initial Individual Group Shareholders. In August 2009, Zhongfu transferred 2.8% of its interest in the Group's operating subsidiaries to a senior manager of the Group through Faithful Hope Limited ("Faithful Hope") and acted as a nominee for Faithful Hope. Faithful Hope is beneficially held as to 30% by a senior manager of the Group and as to 70% by his relative. In November 2009, three of the Initial Group Individual Shareholders transferred their interest to fourteen individuals (hereinafter collectively referred to as the "Group Individual Shareholders") who also entered into nominee arrangements with Zhongfu and Anhe. Since then the Group had been beneficially owned by Zhongfu, Faithful Hope, Anhe and the Group Individual Shareholders as to 32.2%, 2.8%, 35% and 30%, respectively (hereinafter collectively referred to as the "Shareholders").

In preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the Group underwent a reorganization which involves (i) formation of the Company and the intermediate holding companies; (ii) the insertion of the Company and the intermediate holding companies between the Core Business and the Shareholders; and (iii) the transfer of the legal ownership in the Group's subsidiaries previously held through nominees to the Group's entities (the "Reorganization").

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – *continued*

Upon the completion of the Reorganization on February 14, 2013, the Company became the holding company of its subsidiaries. The Reorganization has been arranged in a way that enables the Shareholders to maintain their respective beneficial ownership interests in the Core Business in the same manner before and after the Reorganization.

As details above, the Reorganization involves interspersing shell companies (including the Company and Fu Shou Yuan Group (Hong Kong) Limited ("FSY Hong Kong")) between an existing group headed by Shanghai Fu Shou Yuan Industrial Development Company ("Shanghai FSY Industry Development") and the Shareholders. Accordingly, the consolidated financial statements have been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group has been prepared as if the current group structure upon completion of the Reorganization had been in existence since their respective date of incorporation/establishment/acquisition, where this is a shorter period. The consolidated statement of financial position of the Group has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganization had been in existence as at those dates, taking into account the respective dates of incorporation/establishment/acquisition.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied all the International Financial Reporting Standards ("IFRS"), which are effective from the Group's financial period beginning on January 1, 2013.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group early adopted this standard. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Group has prepared the disclosure in accordance with the amendments. Other than the disclosure, the early adoption does not have any effect on the Group's consolidated financial statements.

The directors of the Company (the "Directors") do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Group's consolidated financial statements.

New and revised IFRSs issued but not yet effective

At the date of this report, the Group has not early adopted the following new and revised IFRSs that have been issued but not yet effective:

IFRSs

Amendments to IFRS 9 and IFRS 7	Mandatory Effective Dates of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
IFRS 9	Financial Instruments[2]
Amendments to IAS 19	Deferred Benefit Plans: Employee Contribution[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRS 14	Regulatory Deferral Accounts[4]
IFRIC 21	Levies[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[5]

1 Effective for annual periods beginning on or after January 1, 2014
2 Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalized.
3 Effective for annual periods beginning on or after July 1, 2014
4 Effective for first annual IFRS financial statements beginning on or after January 1, 2016
5 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

The Directors anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis in accordance with the accounting policies set out below which are in conformity with IFRSs.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for granted options that are within the scope of IFRS 2 – Share-based Payment, leasing transactions that are within the scope of IAS 17 – Lease, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 – Inventories or IAS 36 – Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

The principle accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 - Income Taxes and IAS 19 - Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 - Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Business combinations – *continued*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy basic of consolidation above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 - Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses are eliminated to the extent of the Group's interests in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

The Group enters into contracts with its customers for the provision of burial services, which include the sale of burial plots and cemetery maintenance services.

Revenue from the sale of burial plots is recognized when the right to use burial plots has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the burial plots;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the burial plots sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of cemetery maintenance services is deferred and amortized on a straight-line basis over the remaining service period. The contract price for the cemetery maintenance services is based on a nominal amount, which does not represent the fair value of such services. The Group estimate the fair value of the cemetery maintenance services income to be deferred based on the expected cost of providing such cemetery maintenance services plus a reasonable margin, less total future maintenance fees to be received.

Funeral service income is recognized when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment

Property and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost of items of property and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" and is amortized over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Retirement benefit costs

Payments to the state-managed retirement benefit scheme are charged as an expense when employees have rendered services entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Intangible assets

Intangible assets acquired separately

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy on impairment of investment in a subsidiary, tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Cemetery assets

Cemetery assets consist of prepaid lease payments, cost of initial land development, and cost of landscaping for the general public areas of the cemetery and are carried at the lower of costs less accumulated amortization and net realizable value prior to the commencement of development of the cemetery. Amortization for cemetery assets is provided on a straight-line basis over the estimated useful life of the cemetery assets and is recognized in profit or loss.

Upon commencement of development of the cemetery with the intention of sale in the ordinary course of business of the Group, the related carrying amounts of cemetery assets are transferred to inventories.

Inventories

Inventories include cemetery assets developed and ready for sale, cemetery assets under development, and tombstones and urns. Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, amounts due from related parties, restricted deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Impairment of financial assets

Financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as other receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Impairment of financial assets – *continued*

For financial assets carried at amortized cost, the amount of the impairment loss is recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by group entities are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties, loans from non-controlling interests and borrowings are subsequently measured at amortized cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be remained in the reserve.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2013, the carrying amounts of goodwill are approximately RMB28,102,000 (2012: RMB18,507,000). Details of recoverable amount calculation are disclosed in note 22.

Estimated useful lives and impairment of property and equipment and intangible assets

The Group's management determines the estimated useful lives and the depreciation or amortization method in determining the related depreciation or amortization charges for its property and equipment and intangible assets. This estimate is based on the management's experience of the actual useful lives of property and equipment and intangible assets of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property and equipment and intangible assets may not be recoverable. Management will increase the depreciation or amortization charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of property and equipment and intangible assets differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place.

As at December 31, 2013, the carrying amounts of property and equipment are approximately RMB187,667,000 (2012: RMB121,533,000). No impairment indicators on property and equipment were identified during the years ended December 31, 2013 and 2012. Details of movement are disclosed in note 16.

As at December 31, 2013, the carrying amounts of intangible assets are approximately RMB13,474,000 (2012: RMB12,541,000). No impairment was recorded for the intangible assets during the years ended December 31, 2013 and 2012. Details of movement are disclosed in note 17.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Estimated cemetery maintenance income

The Group estimates cemetery maintenance income to be separated from the sale of burial plots each period. Deferred cemetery maintenance income is determined based on the expected cost of maintaining the cemetery for the useful life of the cemetery, which includes labour cost, general and administrative expenses, and cost of maintenance of landscaping, offset by the expected cemetery maintenance fee to be received from customers. The Group also considered factors such as increase in labour cost in future periods when estimating cemetery maintenance expense. Cemetery maintenance expense is marked up at a reasonable profit and is allocated to individual transaction to arrive at the amount of deferred cemetery maintenance income. Total deferred cemetery maintenance income is reviewed at the end of each period. If it is considered that deferred cemetery maintenance income is insufficient to cover the expected cost of maintenance, provision will be made accordingly. As at December 31, 2013, the carrying amounts of deferred income are approximately RMB154,596,000 (2012: RMB135,864,000), as disclosed in note 28.

Estimated cost of sales

The Group enters into contracts with its customers for the provision of burial services, which include the sale of burial plots and cemetery maintenance. The Group's sale of burial plots represents the rights to use those burial plots, and some of the sales contracts entered with the customers have a term that is longer than the terms of granted land use rights where the cemeteries are located. Pursuant to the relevant regulations, the Group has the right to apply for renew upon expiration of the term of the land use right. The expected cost to fulfil its obligation for the period in excess of the term of the land use rights would be a provision recognized as a part of the cost of sale of burial plots and cemetery maintenance. The Group assesses such cost on annual basis. In the opinion of the Directors, such cost was not significant during the years ended December 31, 2013 and 2012.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged since the prior year and during the year ended December 31, 2013.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 27, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on an on-going basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, capital injection, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,564,679**	343,580
Financial liabilities		
Amortized cost	**314,361**	294,055

b. Financial risk management objectives and policies

The Group's major financial instruments include amounts due from related parties, restricted deposits, bank balances and cash, other receivables, trade and other payables, dividends payable, loans from non-controlling interests, amounts due to related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The primary economic environment in which the Company and its principal subsidiaries operate is the People's Republic of China ("PRC") and their functional currency is RMB. However, certain bank balances, other receivables and amounts due from and to related parties are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities as at December 31, 2013 and 2012 are as follows:

	2013	2012
	RMB'000	RMB'000
Assets		
United States Dollars ("US$")	**43,567**	49,175
Hong Kong Dollars ("HK$")	**293,593**	80
Liabilities		
HK$	**—**	49,589

7. FINANCIAL INSTRUMENTS – *continued*

b. Financial risk management objectives and policies – *continued*

Market risk – continued

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. A sensitivity rate of 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where RMB strengthens 5% against the relevant foreign currencies, whereas a negative number indicates a decrease in post-tax profit. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit.

	2013	2012
	RMB'000	RMB'000
If RMB strengthens against US$	**(1,634)**	(1,844)
If RMB strengthens against HK$	**(11,010)**	1,857

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see note 27).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, restricted deposits, borrowings and interest-bearing amount due to and from related parties and loans from non-controlling interests (see notes 19, 25, 27, 36 and 37).

The Group currently does not have a specific policy to manage their interest rate risk and has not entered into interest rate swaps to hedge its exposure, but will closely monitor its interest rate risk exposure in the future.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing financial instruments. The analysis is prepared assuming the variable-rate financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 5-basis point increase or decrease in deposit interest rates and a 50-basis point increase or decrease in lending interest rates represent management's assessment of the reasonably possible change in interest rates.

If the deposit interest rate had been 5 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2013 would have been increased/decreased by approximately RMB5,829,000 (2012: RMB1,144,000).

If the lending interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2013 would have been decreased/increased by approximately RMB1,464,000 (2012: RMB1,596,000).

7. FINANCIAL INSTRUMENTS – *continued*

b. Financial risk management objectives and policies – *continued*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations is arising from the carrying amounts of the respective recognized financial assets as stated in the statement of financial position at the end of each reporting period.

The Group's credit risk primarily relates to the Group's other receivables, bank balances and cash and restricted deposits. In addition, the credit risk in relation to the Group's bank balances and restricted deposits is not significant because the counterparties are either state-owned banks in the PRC or banks with high credit ratings and quality.

The Group has concentration of credit risk in respect of bank balances. At December 31, 2013, approximately 73% (2012: 83%) of the bank balances were deposited at 2 banks (2012: 3 banks), representing deposits of each bank with a balance exceeding 10% of total bank balances and restricted deposits.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no concentration of credit risk arise from sale of burial plots, provision of funeral services and provision of cemetery maintenance services as these sales or provision of services are typically settled on a cash basis. No trade receivable was due from customers as at December 31, 2013 and 2012.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants, if any.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

7. FINANCIAL INSTRUMENTS – *continued*

b. Financial risk management objectives and policies – *continued*

Liquidity risk – continued

Liquidity and interest risk tables – *continued*

The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from the applicable interest rates as at December 31, 2013 and 2012.

	Weighted average interest rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2013					
Trade and other payables	—	77,638	—	77,638	77,638
Dividends payable	—	159,500	—	159,500	159,500
Loans from non-controlling interests					
– interest-bearing	9.18	—	41,678	41,678	38,173
Borrowings					
– variable rate	6.56	39,352	—	39,352	39,050
		276,490	41,678	318,168	314,361

	Weighted average interest rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2012					
Trade and other payables	—	55,882	—	55,882	55,882
Dividends payable	—	35,983	—	35,983	35,983
Loans from non-controlling interests					
– interest-bearing	9.20	—	49,128	49,128	44,989
– non-interest-bearing	—	—	900	900	900
Amounts due to related parties					
– non-interest-bearing	—	65,473	36,178	101,651	101,651
Borrowings					
– fixed rate	18.00	7,833	—	7,833	7,000
– variable rate	7.23	45,015	4,249	49,264	47,650
		210,186	90,455	300,641	294,055

7. FINANCIAL INSTRUMENTS – *continued*

c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities included at amortised cost in the consolidated financial statements approximate their fair value.

8. SEGMENT INFORMATION

Information reported to the Group's General Manager, 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:

- Burial services – sale of burial plots and provision of cemetery maintenance services.
- Funeral services – planning of funeral arrangement and interment to the organization and hosting of the funeral.

Segment revenues and results

	Burial services				
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000	Sub-total RMB'000	Funeral services RMB'000	Total RMB'000
For the year ended December 31, 2013					
Segment revenue	513,665	10,147	523,812	87,999	611,811
Segment profit	426,978	2,377	429,355	62,304	491,659
Other income and gains, net					29,432
Distribution and selling expenses					(105,982)
Administrative expenses					(122,951)
Finance costs					(5,281)
Other expenses					(26,501)
Profit before taxation					260,376

8. SEGMENT INFORMATION – *continued*

Segment revenues and results – *continued*

	Burial services				
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000	Sub-total RMB'000	Funeral services RMB'000	Total RMB'000
For the year ended December 31, 2012					
Segment revenue	410,982	7,878	418,860	61,117	479,977
Segment profit	341,388	1,019	342,407	43,911	386,318
Other income and gains, net					9,789
Distribution and selling expenses					(95,214)
Administrative expenses					(104,062)
Finance costs					(10,837)
Share of profit of an associate					8,638
Profit before taxation					194,632

The accounting policies of the operating segments are similar to those of the Group's accounting policies as described in note 4. Segment profit represents the profit earned by each segment without allocation of other income and gains, net, distribution and selling expenses, administrative expenses, finance costs, other expenses and share of profit of an associate. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. There were no inter-segment revenues during the years ended December 31, 2013 and 2012. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.

Geographical information

All of the Group's revenue is generated from sale of burial plots, provision of funeral services and cemetery maintenance services in the PRC based on where goods are sold or services are rendered, and substantially all of the Group's identifiable assets and liabilities are located in the PRC.

Information about major customers

No single customer accounted for 10% or more of the Group's revenue during the years ended December 31, 2013 and 2012.

8. SEGMENT INFORMATION – *continued*

Segment revenues and results – *continued*

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

	2013 RMB'000	2012 RMB'000
Burial Services		
Sale of burial plots		
Customized burial (note (a))	**162,473**	141,315
Artistic burial (note (b))	**169,524**	110,031
Traditional burial	**83,947**	85,943
Lawn burial (note (c))	**42,760**	35,726
Green burial (note (d))	**5,686**	3,124
Indoor burial	**7,996**	4,758
Other burial-related services (note (e))	**41,279**	30,085
Cemetery maintenance services	**10,147**	7,878
	523,812	418,860
Funeral services	**87,999**	61,117
	611,811	479,977

Notes:

(a) Customized burial refers to burial plots that the customers are able to fully personalize and customize, among others, the location, size and design and layouts of the burial plots, and the types and styles of memorials and decorative items to be used.

(b) Artistic burial, which allows the customers to choose from an extensive range of pre-designed and pre-fabricated memorials to be used on burial plots that are uniformed in size and landscape.

(c) Lawn burial refers to burial plots situated on the well-kept lawns with flower beds and/or gravemarkers at the head. The customers are able to choose the location of the lawn burial plots and may add photographs and/or inscriptions onto the gravemakers.

(d) Green burial refers to environmental friendly and space saving burial plots, under natural gravemarkers such as fieldstones, trees and flower beds, or interred into low rising wall in respective cemeteries.

(e) Other burial-related services represent revenues from miscellaneous services such as the organization and conducting of burial rituals, the design and landscaping of the burial sites, the trading of flower and additional engraving fees.

Revenue derived from sales of burial plots is measured at the fair value of the consideration received or receivable, net of discounts and sales related taxes. In Henan Fu Shou Yuan Industrial Company Limited ("Henan FSY Industrial") and Jinzhou City Maoshan Anling Company Limited ("Jinzhou Maoshan Anling"), the subsidiaries of the Group, revenue derived from sales of the burial plots is subject to a business tax of 5%. Revenue derived from sales of the burial plots of other group entities is still exempt from business tax.

9. OTHER INCOME AND GAINS, NET

	2013 RMB'000	2012 RMB'000
Other income:		
Interest income on bank deposits	**5,240**	2,667
Interest income on borrowings to related parties (note 36 (c))	**238**	2,275
Interest income on borrowings to independent third parties (note 24)	**816**	2,362
Government grants (note (a))	**5,431**	3,281
	11,725	10,585
Net gains and losses:		
Net gain on disposal of property and equipment	**590**	65
Donation	**(500)**	(811)
Gain on deemed disposal of an associate (note 32(a))	**16,428**	—
Compensation (note (b))	**3,952**	—
Exchange losses	**(2,256)**	(192)
Others	**(507)**	142
	17,707	(796)
Other income and gains, net	**29,432**	9,789

Note:

(a) The government grants presented the amount received from the local government by certain operating subsidiaries of the Group to encourage the economic contribution to the society without any specific conditions.

(b) Compensation represented the amount received in relation to dispute settlement from China Healthcare Holdings Limited. Detail of which has been disclosed in the paragraph headed Dispute Settlement with China Healthcare in the section "Business" of the Company's prospectus dated December 19, 2013.

10. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expense on borrowings wholly repayable within five years	**3,670**	3,882
Interest expense on loans from non-controlling interests wholly repayable within five years (note 37)	**4,068**	4,848
Interest expense on borrowings from independent third parties wholly repayable within five years (note 27)	**543**	2,107
Less: Capitalized interest	**(3,000)**	—
Total finance costs	**5,281**	10,837

The capitalized borrowing costs are calculated by applying the weighted average interest rate of the Group's borrowings of 6.56% per annum to expenditure on qualifying assets.

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2013 RMB'000	2012 RMB'000
Staff costs, including Directors'remuneration (note 12):		
Salaries, wages, bonus and other benefits	**99,382**	89,861
Retirement benefits scheme contributions	**9,003**	6,751
Share based payments expenses	**6,576**	—
Total staff costs	**114,961**	96,612
Auditors' remuneration	**2,800**	460
Depreciation of property and equipment	**16,335**	11,502
Cost of inventories recognized as an expense	**62,590**	53,458
Amortization of intangible assets (included in administrative expenses)	**431**	340
Amortization of cemetery assets (included in cost of sales and services)	**10,902**	7,976
Listing expenses (included in other expenses)	**26,501**	—
Operating lease rentals	**6,832**	5,473

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid and payable to the Directors of the Company are as follows:

	2013	2012
	RMB'000	RMB'000
Directors' fees	**1,360**	600
Other emoluments		
Discretionary bonus	**1,710**	—
Contributions to retirement benefits scheme	**156**	78
Share based payments expenses	**808**	—
	4,034	678

The emoluments of the Directors on a named basis are as follows:

For the year ended December 31, 2013

	Directors' fees RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Share based payment expenses RMB'000	Total RMB'000
Executive Directors					
Bai Xiaojiang	600	855	78	404	1,937
Tan Leon Li-an	20	—	—	—	20
Wang Jisheng	600	855	78	404	1,937
Non-Executive Directors					
Huang James Chih-Cheng	20	—	—	—	20
Lin Hung Ming	20	—	—	—	20
Lu Hesheng	20	—	—	—	20
Tan Richand Lipin (note)	—	—	—	—	—
Independent Non-Executive Directors					
Chen Qunlin	20	—	—	—	20
Luo Zhuping	20	—	—	—	20
Ho Man	20	—	—	—	20
Wu Jianwei	20	—	—	—	20
	1,360	1,710	156	808	4,034

Note: Tan Richard Lapin was appointed and resigned as a Company's director on January 30, 2013 and December 3, 2013, respectively.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

For the year ended December 31, 2012

	Directors' fees RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Share based payment expense RMB'000	Total RMB'000
Executive Directors					
Bai Xiaojiang	—	—	—	—	—
Tan Leon Li-an	—	—	—	—	—
Wang Jisheng	600	—	78	—	678
Non-Executive Directors					
Huang James Chih-Cheng	—	—	—	—	—
Lin Hung Ming	—	—	—	—	—
Lu Hesheng	—	—	—	—	—
	600	—	78	—	678

The five highest paid individuals of the Group included two directors (2012: one) for the year ended December 31, 2013. The remunerations of the remaining three (2012: four) individuals during the two years are as follows:

	Year ended December 31, 2013 RMB'000	Year ended December 31, 2012 RMB'000
Employees		
Salaries, wages and other benefits	**1,200**	1,320
Discretionary bonus	**1,757**	—
Contributions to retirement benefits scheme	**155**	168
Share based payments expenses	**920**	—
	4,032	1,488

Of the five highest paid individuals in the Group for the year ended December 31, 2013, two are directors and each of their emolument falls within the band of HK$2,000,001 to HK$2,500,000, whilst the remaining three are employees and each of their emolument falls within the band of HK$1,500,001 to HK$2,000,000. In 2012, five highest paid individuals include one director and four employees and each of their emolument falls within the band of nil to HK$1,000,000.

During the year, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the Directors waived any emoluments during the two years.

13. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
PRC Enterprise Income Tax ("PRC EIT")	**70,233**	59,242
Deferred tax (note 21)	**63**	(2,811)
	70,296	56,431

The tax charge for the years ended December 31, 2013 and 2012 can be reconciled to the profit before taxation as follows:

	2013 RMB'000	2012 RMB'000
Profit before taxation	**260,376**	194,632
Tax at the PRC EIT rate of 25%	**65,094**	48,658
Tax effect of expenses not deductible for tax purpose (note)	**7,454**	6,714
Tax effect of income not taxable for tax purpose	**(4,950)**	(2,026)
Tax effect of different tax rates	**(1,187)**	(728)
Tax effect of share of results of associates	**—**	(2,160)
Tax effect of tax losses not recognized	**1,162**	743
Utilization of tax losses previously not recognized	**(27)**	—
Withholding tax on undistributed profits of PRC subsidiaries (note 21)	**2,750**	5,230
Income tax expense for the year	**70,296**	56,431

Note: Expenses not deductible for tax purpose primarily include expenses with employees' welfare and entertainment expenses exceeding the tax deduction limits under the Law of the PRC on Enterprise Income Tax (the "EIT Law").

Under the EIT Law and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), a 100% owned subsidiary of the Group, which is located in specific province of Western China and engaged in specific encouraged industry, enjoys a preferential tax rate of 15% under EIT Law.

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain.

FSY Hong Kong is subject to Hong Kong profit tax at a rate of 16.5%. No Hong Kong profit tax has been provided as the Group did not have assessable profit earned in or derived from Hong Kong during the years ended December 31, 2013 and 2012.

14. DIVIDENDS

During the year ended December 31, 2013, the Group has declared dividends as distributions to its then owners amounting to RMB159,500,000.

The dividends recognized as distributions for the year ended December 31, 2012 of RMB85,720,000 were all paid out by the Group's PRC entities directly to their then intermediate owners established in the PRC not forming part of the Group (the "PRC Entities Then Owners").

The Directors do not recommend the payment of any final dividends for the profit of the year ended December 31, 2013.

15. 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:

	2013	2012
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	**167,255**	124,270
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,516,399,117**	1,499,960,861
Effect of dilutive potential ordinary shares:		
Share options	**14,192,189**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,530,591,306**	1,499,960,861

The diluted earnings per share is the same as basic earnings per share for the year ended December 31, 2012 as there was no potential dilutive ordinary share in issue.

16. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At January 1, 2012	87,987	3,868	14,358	18,715	3,146	128,074
Additions	—	409	2,932	6,418	13,732	23,491
Acquired on acquisition of subsidiaries (note 32(b) (c))	18,150	—	2,331	3,417	1,425	25,323
Transfer	2,343	—	260	—	(2,603)	—
Disposals	(14)	—	(263)	(3,447)	—	(3,724)
At December 31, 2012	108,466	4,277	19,618	25,103	15,700	173,164
Additions	7,804	1,298	4,521	4,951	60,215	78,789
Acquired on acquisition of a subsidiary (note 32(a))	8,430	—	595	882	—	9,907
Transfer	16,573	—	1,044	—	(17,617)	—
Disposals	(6,040)	—	(1,190)	(3,949)	—	(11,179)
At December 31, 2013	**135,233**	**5,575**	**24,588**	**26,987**	**58,298**	**250,681**
DEPRECIATION						
At January 1, 2012	18,046	1,833	10,531	11,578	—	41,988
Provided for the year	5,474	739	1,892	3,397	—	11,502
Eliminated on disposals	(14)	—	(150)	(1,695)	—	(1,859)
At December 31, 2012	23,506	2,572	12,273	13,280	—	51,631
Provided for the year	8,808	882	2,944	3,701	—	16,335
Eliminated on disposals	(462)	—	(1,126)	(3,364)	—	(4,952)
At December 31, 2013	**31,852**	**3,454**	**14,091**	**13,617**	**—**	**63,014**
CARRYING VALUES						
At December 31, 2012	84,960	1,705	7,345	11,823	15,700	121,533
At December 31, 2013	**103,381**	**2,121**	**10,497**	**13,370**	**58,298**	**187,667**

16. PROPERTY AND EQUIPMENT – *continued*

The above items of property and equipment other than construction in progress are depreciated on a straight-line basis, taking into account their estimated residual values, at the following rates per annum where applicable:

Buildings	Over the shorter of the remaining lease term of land and useful life of buildings of 30 years
Leasehold improvements	20%
Furniture, fixtures and equipment	9.50% - 31.67%
Motor vehicles	11.88% - 19.00%

As at December 31, 2013, the Group pledged buildings with carrying values of approximately RMB10,555,000 (2012: RMB13,124,000), to secure bank loans granted to the Group.

The buildings are situated on lands in the PRC which are held by the Group under medium-term leases.

As at December 31, 2013, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB12,742,000 (2012: RMB9,980,000) had not been obtained.

17. INTANGIBLE ASSETS

	Computer software RMB'000	Favorable lease payment RMB'000	Licence for provision of funeral services RMB'000	Total RMB'000
COST				
At January 1, 2012	844	2,076	11,808	14,728
Additions	177	—	—	177
Acquired on acquisition of subsidiaries (note 32(c))	71	—	—	71
At December 31, 2012	1,092	2,076	11,808	14,976
Additions	1,364	—	—	1,364
At December 31, 2013	**2,456**	**2,076**	**11,808**	**16,340**
AMORTISATION				
At January 1, 2012	430	1,665	—	2,095
Provided for the year	169	171	—	340
At December 31, 2012	599	1,836	—	2,435
Provided for the year	191	240	—	431
At December 31, 2013	**790**	**2,076**	**—**	**2,866**
CARRYING VALUES				
At December 31, 2012	493	240	11,808	12,541
At December 31, 2013	**1,666**	**—**	**11,808**	**13,474**

17. INTANGIBLE ASSETS – *continued*

Favourable lease payment resulted from a non-cancellable operating lease in respect of the Group's outlet located in the PRC acquired from a business acquisition of Chongqing Anle Services Company Limited ("Chongqing Anle Services") in March 2002 and are carried at cost less accumulated amortization and any accumulated impairment losses. The favorable lease payment is amortized on a straight-line basis within the remaining terms of the relevant lease at the date of acquisition.

The license for provision of funeral services was issued by the relevant authorities in Chongqing and is renewable every year at minimal costs. The management is of the opinion that the Group would renew the license continuously and has the ability to do so. As such, the management considers such license plate carries an indefinite useful life and is carried at cost less any subsequent impairment losses, if any.

The license will not be amortized until its useful life is determined to be finite. Instead, it will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. During the years ended December 31, 2013 and 2012, the management of the Group determined that there was no impairment of license.

The recoverable amounts of the license are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the license. The growth rates are by reference to industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year ended December 31, 2013, the Group performed impairment review for the license of the CGUs based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using discount rate of 16.6% (2012: 16.8%) which reflects current market assessments of the time value of money and the risks specific to the CGUs. The cash flows beyond the next five years are extrapolated using a growth rate of 3% (2012: 3%) per annum. The growth rates are by reference to industry growth forecasts.

Computer software has finite useful life and is amortized on a straight-line basis over its estimated useful life of 5 years.

18. CEMETERY ASSETS

	Prepaid lease payments RMB'000	Landscape facilities RMB'000	Development cost RMB'000	Total RMB'000
COST				
At January 1, 2012	215,096	23,881	74,801	313,778
Additions	3,300	12,687	9,920	25,907
Acquired on acquisition of a subsidiary (note 32(c))	38,705	10,891	3,276	52,872
Transfer to inventories	(4,487)	(7)	(416)	(4,910)
At December 31, 2012	252,614	47,452	87,581	387,647
Additions	42,033	4,315	11,471	57,819
Acquired on acquisition of a subsidiary (note 32(a))	49,393	5,347	15,862	70,602
Transfer to inventories	(6,531)	(5,175)	(5,734)	(17,440)
At December 31, 2013	**337,509**	**51,939**	**109,180**	**498,628**
AMORTIZATION				
At January 1, 2012	21,129	12,160	8,600	41,889
Provided for the year	4,512	1,857	1,607	7,976
Eliminated on transfer	(60)	(1)	(22)	(83)
At December 31, 2012	25,581	14,016	10,185	49,782
Provided for the year	5,142	3,107	2,653	10,902
Eliminated on transfer	(548)	(1,755)	(284)	(2,587)
At December 31, 2013	**30,175**	**15,368**	**12,554**	**58,097**
CARRYING VALUES				
At December 31, 2012	227,033	33,436	77,396	337,865
At December 31, 2013	**307,334**	**36,571**	**96,626**	**440,531**

18. CEMETERY ASSETS – *continued*

	2013 RMB'000	2012 RMB'000
The Group's prepaid lease payment comprises:		
Land use rights in the PRC for which development had not yet commenced:		
Medium-term lease	**203,660**	118,280
Long-term lease	**103,674**	108,753
	307,334	227,033

The prepaid lease payments have definite useful lives and amortized on a straight-line basis over the lease terms. As at December 31, 2013, the prepaid lease payments include deposits for acquisition of land amounting to RMB53,109,000 (2012: nil), and the carrying value of lease payments to individuals amounting to approximately RMB25,305,000 (2012: RMB23,889,000).

Landscape facilities represent the construction cost of arbors and bridges in the mausoleum. Amortization for landscape facilities is provided on a straight-line basis over shorter of the remaining lease term of land or useful life, which is 20 years.

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

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

19. RESTRICTED DEPOSITS

In accordance with the relevant requirement of the Shanghai government, the Group has to deposit 10% of the cemetery maintenance fee received in Shanghai to a designed joint named bank account with the Qingpu Funeral Association (青浦殯葬所) which carries variable-rate interest by reference to the People's Bank of China benchmark rate. This bank balance can be drawn annually with a cap based on the 20% of the cemetery maintenance costs incurred in the preceding year that are endorsed by the Qingpu Funeral Association, which will be used for general maintenance of the cemetery.

20. INTERESTS IN AN ASSOCIATE

	2012 RMB'000
Cost of unlisted investment in an associate	20,000
Share of post-acquisition profits, net of dividend received	25,120
	45,120

As at December 31, 2012, the Group had interests in the following associate:

Name of entity*	Form of entity	Country of registration	Principal place of operation	Class of capital	Proportion of nominal value of register capital held by the Group		Proportion of voting power held		Principal activity
					2013 %	2012 %	**2013 %**	2012 %	
Shanghai Nanyuan Industrial Development Co., Ltd.	Domestic limited liability enterprise	PRC	PRC	Registered capital	**note (a)**	40	**note (a)**	40	Provision of burial services

Note:

* The English names of the entity established in the PRC are translated for identification purpose only.

(a) Shanghai Nanyuan Industrial Development Co., Ltd. ("Shanghai Nanyuan") has become a subsidiary after the Group obtained its controlling interests on January 4, 2013. Details are set out in note 32(a).

Summarized financial information in respect of the Group's material associate is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

Shanghai Nanyuan

	2012 RMB'000
Current assets	70,854
Non-current assets	70,152
Current liabilities	(26,255)
Non-current liabilities	(1,950)
Net assets	112,801
Group's share of net assets of associates	45,120
Revenue for the year	60,802
Profit and total comprehensive income for the year	21,595
Group's share of profits and total comprehensive income of the associate for the year	8,638

21. DEFERRED TAXATION

The following are the major deferred tax assets (liability) recognized by the Group and movements thereon during the year ended December 31, 2013:

	Deferred income RMB'000	Tax losses RMB'000	Payroll and welfare payable RMB'000	Fair value adjustment RMB'000 Note	Undistributed profits RMB'000	Total RMB'000
At January 1, 2012	14,894	—	11,634	(23,663)	—	2,865
Acquisition of subsidiaries (note 32(c))	—	—	—	(4,200)	—	(4,200)
Credit (charge) to profit or loss	2,308	78	3,996	1,659	(5,230)	2,811
At December 31, 2012	17,202	78	15,630	(26,204)	(5,230)	1,476
Acquisition of subsidiaries (note 32(a))	—	—	—	(5,496)	—	(5,496)
Credit (charge) to profit or loss	2,261	538	(4,616)	1,754	—	(63)
Transfer	—	—	—	—	5,230	5,230
At December 31, 2013	**19,463**	**616**	**11,014**	**(29,946)**	**—**	**1,147**

Note: Fair value adjustment mainly refers to revaluation of property and equipment, and cemetery assets upon the business combination arose from acquisition of subsidiaries as per note 32.

For the purpose of presentation in the 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 fiscal authority. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At December 31,	
	2013 RMB'000	2012 RMB'000
Deferred tax assets	**31,093**	32,910
Deferred tax liabilities	**(29,946)**	(31,434)
	1,147	1,476

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

The Group has unused tax losses of approximately RMB12,047,000 (2012: RMB5,354,000) as at December 31, 2013. Deferred tax assets have been recognized in respect of approximately RMB2,466,000 (2012: RMB311,000) of such losses as at December 31, 2013. No deferred tax assets have been recognized in respect of the remaining approximately RMB9,581,000 (2012: RMB5,043,000) as at December 31, 2013 due to the unpredictability of future profit streams. Pursuant to the rules and regulations in the PRC, the unrecognized tax losses at the end of each reporting period will expire in five years.

21. DEFERRED TAXATION – *continued*

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from January 1, 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the ''beneficial owner'' and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding rate of 5%. On February 22, 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at December 31, 2007 are exempted from the withholding tax.

Upon FSY Hong Kong became the immediate holding company of the Group's PRC entities on October 10, 2011 (the "Completion date"), the Group is subject to the PRC dividend withholding tax if undistributed earnings of its PRC entities are declared to be paid out of the profits that arose on or after the Completion date through FSY Hong Kong.

However, as shown in noted 14, the dividends recognized as distributions for the year ended December 31, 2012 of RMB85,720,000 were all paid out by the Group's PRC entities directly to their then intermediate owners established in the PRC not forming part of the Group. The Group is therefore not subject to PRC withholding tax on such dividends distributed by its PRC entities to the PRC Entities Then Owners directly as dividends paid to PRC tax residents are not subject to withholding tax.

As of December 31, 2012, the Directors have determined that the Group shall distribute earnings arising from earnings of PRC subsidiaries during the year ended December 31, 2012 in an amount of RMB104,500,000, accordingly, the RMB104,500,000 distribution shall be subject to the PRC dividend withholding tax. An amount of RMB5,230,000 was recognized as deferred tax liabilities of the Group for the year ended December 31, 2012, and then transferred to income tax payable after such distribution was declared as dividends in 2013.

As of December 31, 2013, the Company has declared another distribution in an amount of RMB55,000,000 as the dividends to the shareholders of the Company, arising from earnings of PRC subsidiaries. Accordingly, the RMB55,000,000 distribution from the Group's PRC entities to the Group's overseas holding companies shall be subject to the PRC dividend withholding tax and an amounting to RMB2,750,000 is recognized as income tax liability of the Group for the year ended December 31, 2013.

The Directors represent that the remaining undistributed earnings of the PRC subsidiaries amounting to RMB181,268,000 as of December 31, 2013 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is able to control the timing of reversal of such temporary difference and it is probable that such temporary difference would not be reversed foreseeable future.

22. GOODWILL/IMPAIRMENT TESTING ON GOODWILL

The movement of goodwill as at December 31, 2013 and 2012 are as follows:

	2013	2012
	RMB'000	RMB'000
COST		
At January 1	18,507	14,769
Arising on acquisition of subsidiaries	9,595	3,738
	28,102	18,507

The carrying amounts of goodwill as at December 31, 2013 and 2012 are as follows:

	2013	2012
	RMB'000	RMB'000
Shanghai Nanyuan (note 32(a))	9,595	—
Jinzhou Maoshan Anling (note 32(c))	3,738	3,738
Henan FSY Industrial	14,769	14,769
	28,102	18,507

For the purposes of impairment testing, goodwill have been allocated to three individual CGUs, comprising three subsidiaries in the burial serveries segment. During the years ended December 31, 2013 and 2012, the management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

22. GOODWILL/IMPAIRMENT TESTING ON GOODWILL – *continued*

The recoverable amounts of the above CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are by reference to industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The major underlying assumptions are summarized below:

(a) Shanghai Nanyuan

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 16.9%. Cash flow beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

(b) Jinzhou Maoshan Anling

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 17.2% (2012: 17.5%). Cash flow beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

(c) Henan FSY Industrial

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 16.6% (2012: 16.8%). Cash flow beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

23. INVENTORIES

	2013 **RMB'000**	2012 RMB'000
Burial Plots	**139,314**	75,218
Tombstone	**41,144**	33,719
Others	**2,222**	2,227
	182,680	111,164

24. OTHER RECEIVABLES

	2013	2012
	RMB'000	RMB'000
Prepayments and deposits to suppliers	**14,285**	7,322
Prepayments and rental deposits on properties	**1,041**	1,882
Staff advances	**1,161**	1,735
Loans to independent third parties (note (a))	**—**	12,640
Amounts due from non-controlling interests (note (b))	**—**	11,388
Others	**4,599**	2,798
	21,086	37,765

Notes:

(a) The balances carried fixed interest rate at 18% per annum, which were unsecured and repayable on demand and have been fully settled in 2013.

(b) The balances were non-interest bearing and have been fully settled in 2013.

25. BANK BALANCES AND CASH

Bank balances and cash of the Group denominated in RMB, HK$ and US$ carry variable-rate interest as follows:

	2013	2012
	RMB'000	RMB'000
Interest rate per annum		
– RMB	**0.35%-0.50%**	0.35%-0.50%
– HK$	**0.01%**	0.01%
– US$	**0.10%**	0.10%

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

	2013	2012
	RMB'000	RMB'000
HK$	**293,590**	36
US$	**39,786**	49,175
	333,376	49,211

26. TRADE AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Trade payables	**50,850**	42,985
Advances and deposits from customers	**23,624**	22,996
Payables for acquisition of property and equipment	**8,216**	6,954
Salary, welfare and bonus payables	**63,310**	75,529
Other taxes payable	**6,749**	1,131
Other accrued expenses	**6,424**	2,401
Unpaid listing expense	**10,358**	—
Others	**1,790**	3,542
	171,321	155,538

Advances and deposits from customers are in most cases received from customers before delivery of cemetery and tombstone is made.

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

	2013 RMB'000	2012 RMB'000
0 - 90 days	**19,123**	27,606
91 - 180 days	**9,596**	3,450
181 - 360 days	**7,662**	8,511
Over 361 days	**14,469**	3,418
	50,850	42,985

The average credit period on purchases of goods is 181 to 360 days.

27. BORROWINGS

	2013 RMB'000	2012 RMB'000
Bank borrowings	**39,050**	47,650
Other borrowings	**—**	7,000
Total	**39,050**	54,650
Secured by the Group's assets	**34,050**	36,550
Secured by independent third party's assets	**—**	3,800
Total secured borrowings	**34,050**	40,350
Total unsecured borrowings	**5,000**	14,300
	39,050	54,650
Guaranteed by an independent third party	**5,000**	7,300
Guaranteed by a related party	**—**	7,000
Total guaranteed borrowings	**5,000**	14,300
Total unguaranteed borrowings	**34,050**	40,350
	39,050	54,650
Fixed-rate borrowings	**—**	12,100
Variable-rate borrowings	**39,050**	42,550
	39,050	54,650
Carrying amount repayable:		
Within one year	**39,050**	50,550
More than one year, but not exceeding two years	**—**	4,100
	39,050	54,650
Less: amounts due within one year shown under current liabilities	**39,050**	50,550
Amounts shown under non-current liabilities	**—**	4,100

During the years ended December 31, 2013 and 2012, the Group entered into various borrowing agreements with banks to finance its business operations and expansion. Such borrowings were secured against the Group's buildings as disclosed in note 16.

27. BORROWINGS – *continued*

The ranges of effective interest rates on the Group's bank borrowings are as follows:

	2013	2012
Effective interest rate:		
Fixed-rate borrowings	**—**	7.80% - 18.00%
Variable-rate borrowings	**6.00% - 8.65%**	6.89% - 8.53%

The Group has variable-rate bank borrowings which carry interest at the People's Bank of China benchmark rate plus a premium.

The Group obtained other borrowings from a financial institution with a fixed interest rate at 18% per annum as at December 31, 2012. The balances have been settled as of December 31, 2013.

28. DEFERRED INCOME

Deferred income represents the portion of the revenue generated from the provision of burial services that has not been earned as revenue in accordance with the revenue recognition policy and the nature of the business.

	At December 31,	
	2013	2012
	RMB'000	RMB'000
Carrying amount analyzed as:		
Amounts shown under current liabilities	**11,629**	8,419
Amounts shown under non-current liabilities	**142,967**	127,445
	154,596	135,864

The Group provides on-going cemetery maintenance services as part of the burial services to maintain the landscaped cemeteries and the large number of memorials that lie on the cemeteries.

Customers who purchase burial services at certain locations are required to make advance payments for maintenance fees, relating to the maintenance of their cremation niches or burial lots and memorials over 10 to 20 years, and such amounts are generally paid together with the purchase of our burial services.

The Group keeps track of the cemetery maintenance expense for the sites and makes estimate based on the projected increases, such as increase in the labor cost and the incremental maintenance expense as a result of increase in future sales. Total estimated cemetery maintenance expense plus a reasonable margin, offset by estimated maintenance fees to be received, represent the amount of total deferred income. Total deferred income is allocated to the individual transaction to determine the amount of revenue to be deferred at each year.

During the year ended December 31, 2013, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB10,147,000 (2012: RMB7,878,000).

29. SHARE CAPITAL

	Number of shares	Amount US$
Ordinary shares of US$0.01 each		
Authorized:		
At January 5, 2012 (date of incorporation) and December 31, 2012 (note (a))	50,000	50,000
Sub-division of authorized shares (note (a))	4,950,000	—
Increase in authorized share capital (note (a))	19,995,000,000	199,950,000
At December 31, 2013	20,000,000,000	200,000,000

Issued and fully paid:

	Number of shares	Amount US$	Shown in the Financial Information as RMB'000
At January 5, 2012 (date of incorporation)			
Issue of new shares pursuant to the Reorganization	1	1	—
At December 31, 2012	1	1	—
Sub-division of issued shares (note (a))	99	—	—
Increase in issued share capital (note (b))	9,900	99	—
Issue of shares by capitalization of share premium account (note (c))	1,499,990,000	14,999,900	90,868
Issue of shares by initial public offerings (note (d))	500,000,000	5,000,000	30,290
At December 31, 2013	2,000,000,000	20,000,000	121,158

Note:

(a) The initial authorized share capital of the Company was US$50,000 divided into 50,000 shares of US$1 each as at the date of incorporation. On July 9, 2013, the par value of the Company's shares was sub-divided from US$1 per share to US$0.01 per share, and as a result, the total authorized share capital and issued share capital of the Company increased to 5,000,000 shares and 100 shares of par value of US$0.01 each, respectively. Pursuant to shareholders' written resolutions passed on the same date, the authorized share capital of the Company was further increased from 5,000,000 shares to 20,000,000,000 shares with par value of US$0.01 each by the creation of an additional 19,995,000,000 shares.

(b) On July 9, 2013, an additional 9,900 Company's shares were allotted and issued for cash consideration of US$99, which were credited as fully paid.

(c) On December 3, 2013, an additional 1,499,990,000 Company shares were allotted and issued, credited as fully paid at par value, by way of capitalization.

(d) On December 19, 2013, the Company issued a total of 500,000,000 new ordinary shares of US$0.01 each at the price of HK$3.33 per share by means of initial public offering.

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

30. RESERVES

Statutory surplus reserve

As stipulated by the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. An appropriation to such reserve is made out of net profit after tax as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their respective boards of directors annually. The appropriation, however, must be at least 10% of profit after tax and may cease when the fund balance reaches 50% of the registered capital of the PRC subsidiaries. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalization issue.

Special reserve

During the year ended December 31, 2012, RMB5,000,000 was recognized as special reserve, which represents the difference between the issued share capital of FSY Hong Kong and the remaining paid-in capital of Shanghai FSY Industry Development after the deemed distribution to the equity holders pursuant to Reorganization.

During the year ended December 31, 2013, RMB 79,667,000 was recognized as special reserve, which represents the amounts due to related parties waived by the Founding Shareholders, which was regarded as deemed contributions from the shareholders.

Other Reserve

Other reserve represents the difference between the proportionate share of the carrying amount of the net assets of non-wholly-owned subsidiaries transferred from non-controlling interests and the consideration paid to acquire the respective equity interests from non-controlling interests.

On January 10, 2013, Chongqing Fu Shou Yuan Industrial Company Limited ("Chongqing FSY Industrial"), a wholly-owned subsidiary of the Group, entered into an agreement with non-controlling interests of Jinzhou Maoshan Anling, the then 84.27% owned subsidiary of the Group, to acquire 15.73% equity interest in Jinzhou Maoshan Anling for a cash consideration of approximately RMB11,000,000. An amount of approximately RMB12,795,000 (being the proportionate share of the carrying amount of the net assets of Jinzhou Maoshan Anling) has been transferred from non-controlling interests. The difference of approximately RMB1,795,000 between the reduction of the non-controlling interests and the consideration paid has been credited to other reserve.

On January 15, 2013, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, entered into an agreement with non-controlling interests of Henan FSY Industrial, the then 55% owned subsidiary of the Group, to acquire 45% equity interest in Henan FSY Industrial for a cash consideration of approximately RMB17,688,000. An amount of approximately RMB42,677,000 (being the proportionate share of the carrying amount of the net assets of Henan FSY Industrial) has been transferred from non-controlling interests. The difference of approximately RMB24,989,000 between the reduction of the non-controlling interests and the consideration paid has been credited to other reserve.

31. SHARE BASED COMPENSATION

Share Option Scheme

The Company adopted its share option scheme on December 3, 2013 (the "Share Option Scheme") which shall be valid and effective for a period of 10 years from that date, subject to early termination by the Company in a general meeting or by the Directors. 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 Directors may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or shareholder of any member of the Group (the "Eligible Participants").

Under the Share Option Scheme, the total number of shares available for issue under the Share Option Scheme was 200,000,000 shares representing 9.64% of the issued share capital of the Company.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be determined by the Directors provided that it shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

For the year ended December 31, 2013, no option was granted by the Company under the Share Option Scheme.

Pre-IPO Share Option Scheme

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on March 10, 2013 for the primary purpose of motivating the Eligible Participants to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and development. Under the Pre-IPO Share Option Scheme, the Directors may grant up to 100,000,000 share options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

31. SHARE BASED COMPENSATION – *continued*

Pre-IPO Share Option Scheme – *continued*

On August 8, 2013, 57,613,169 share options under the Pre-IPO Share Option Scheme were granted to the Directors and employees of the Company, representing 2.8% of the shares of the Company in issue as of December 31, 2013. The terms of the share options granted are:

(1) All options granted are at an exercise price of RMB0.9 per share.

(2) All options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From August 8, 2015 to August 7, 2017	50% of the total number of shares underlying the options granted.
From August 8, 2016 to August 7, 2017	50% of the total number of shares underlying the options granted.

(3) Each option granted under the Pre-IPO Share Option Scheme has a four-year exercise period from August 8, 2013.

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the year ended December 31, 2013:

	Number of options				
	Outstanding as at January 1, 2013	Issued during the year	Exercised during the year	Forfeited in the year	Outstanding as at December 31, 2013
Directors:					
Bao Xiaojiang	—	3,453,452	—	—	3,453,452
Wang Jisheng	—	3,453,452	—	—	3,453,452
	—	6,906,904	—	—	6,906,904
Senior management	—	11,876,037	—	—	11,876,037
Other employees	—	38,830,228	—	—	38,830,228
	—	57,613,169	—	—	57,613,169
Exercisable at the end of the year	—				—
Weighted average exercise price (RMB)	N/A	0.9	N/A	N/A	0.9

31. SHARE BASED COMPENSATION – *continued*

Pre-IPO Share Option Scheme – *continued*

The estimated fair value of share options granted was approximately RMB38,672,000. The fair value was calculated using the Binomial model. The major inputs into the model are as follows:

	August 8, 2013
Share price	RMB1.65
Exercise price	RMB0.90
Expected volatility	39.4%
Expected life	4.0 years
Risk-free interest rate	0.7806%
Forfeiture rate	3.4%

Share price is determined as the total fair value of the Company's equity divided by the total number of shares. To determine the fair value of the Company's equity value as of August 8, 2013, the Company used primarily the discounted cash flow method under the income approach, using cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 14.9%. Cash flow beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates. The result from the income approach was cross checked with the guideline company method under the market approach, which incorporates certain assumptions, including the market performance of comparable listed companies, as well as the financial results and growth trends of the Company, to derive the total equity of the Group.

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity on August 7, 2017 as of the date of grant. Expected volatility was determined by using the historical volatility of companies with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Changes in variables and assumptions may result in changes in the fair values of the share options.

The Group recognised the total expense of approximately RMB6,576,000 for the year ended December 31, 2013 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

32. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of control power in Shanghai Nanyuan

On January 4, 2013, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, entered into an agreement with all other equity holders of Shanghai Nanyuan, the then 40%-owned associate of the Group, pursuant to which all other equity holders of Shanghai Nanyuan assigned irrevocable rights to Shanghai FSY Industry Development unconditionally and without conditions to direct the relevant activities of Shanghai Nanyuan unilaterally. As such, Shanghai Nanyuan became an indirectly 40%-owned subsidiary of the Company. The acquisition was accounted for using the acquisition method and an amount of approximately RMB16,428,000, representing a gain on deemed disposal of an associate, was recognized as income for the year ended December 31, 2013. Shanghai Nanyuan is engaged in sale of burial plots and was acquired as part of the Group's expansion.

32. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of control power in Shanghai Nanyuan – *continued*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

Net assets acquired:	**RMB'000**
Property and equipment	9,907
Cemetery assets	70,602
Inventories	41,766
Other receivables	400
Bank balances and cash	38,788
Trade and other payables	(9,885)
Income tax liabilities	(16,200)
Deferred tax liabilities	(5,496)
	129,882
Non-controlling interests	(77,929)
Transferred from interest previously held as an associate	(61,548)
Goodwill	9,595
Satisfied by:	
Cash paid in 2013	—
Net cash outflow arising on acquisition:	
Cash consideration paid	—
Less: bank balances and cash acquired	(38,788)
	(38,788)

The fair value and gross contractual amounts of other receivables at the date of acquisition approximated their carrying amounts and were expected to be fully recovered in the future.

The non-controlling interests 60% in Shanghai Nanyuan recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired.

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

32. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of control power in Shanghai Nanyuan – *continued*

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

Included in the profit for the year ended December 31, 2013 is approximately RMB23,560,000 attributable to the additional business generated by Shanghai Nanyuan. Revenue for the year ended December 31, 2013 includes approximately RMB67,049,000 generated from Shanghai Nanyuan.

Had the acquisition been completed on January 1, 2013, total group revenue for the year would have been approximately RMB611,811,000, and profit for the year would have been approximately RMB190,080,000. The pro forma information is for illustrative purposes 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, 2013, nor is it intended to be a projection of future results.

(b) Acquisition of 50.89% equity interest in Nanchang Hongfu Human Memorial Company Limited ("Nanchang Hongfu")

On December 16, 2012, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, acquired 50.89% equity interest in Nanchang Hongfu for a cash consideration of RMB45,800,000. After the acquisition, Nanchang Hongfu became an indirectly 50.89%-owned subsidiary of the Company because a valid resolution requires more than 50% votings from all shareholders of Nanchang Hongfu, such that the Group has the practical ability to direct the relevant activities of Nanchang Hongfu unilaterally. The acquisition was accounted for using the acquisition method. Nanchang Hongfu is engaged in sale of burial plots and was acquired as part of the Group's expansion.

The net assets acquired in the transaction are as follows:

Net assets acquired:	**RMB'000**
Property and equipment	20
Other receivables	729
Bank balances and cash	89,726
Trade and other payables	(121)
Income tax liabilities	(356)
	89,998
Non-controlling interests	(44,198)
Satisfied by:	
Cash paid in 2012	45,800
Net cash inflow arising on acquisition:	
Cash consideration paid	45,800
Less: bank balances and cash acquired	(89,726)
	(43,926)

32. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 50.89% equity interest in Nanchang Hongfu Human Memorial Company Limited ("Nanchang Hongfu") – *continued*

The non-controlling interests 49.11% in Nanchang Hongfu recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired.

The Directors considered that the carrying amounts of the net assets acquired upon acquisition approximated to their fair values.

As Nanchang Hongfu was only acquired near the end of 2012, it did not generate any revenue nor profit to the Group for the year ended December 31, 2012.

Had the acquisition been completed on January 1, 2012, total group revenue for the year would remain unchanged and profit for the year would have been approximately RMB139,139,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2012, nor is it intended to be a projection of future results.

(c) Acquisition of 84.27% equity interest in Jinzhou Maoshan Anling

In May 2012, Chongqing FSY Industrial, a wholly-owned subsidiary of the Group, acquired 84.27% equity interest in Jinzhou Maoshan Anling for a cash consideration of RMB70,000,000. After the acquisition, Jinzhou Maoshan Anling became an indirectly 84.27%-owned subsidiary of the Company. In January 2013, the Group acquired the remaining 15.73% equity interest and Jinzhou Maoshan Anling became indirectly wholly owned subsidiary of the Company for a cash consideration of RMB11,000,000. The acquisition in May 2012 was accounted for using the acquisition method. Jinzhou Maoshan Anling is engaged in a sale of burial plots and was acquired as part of the Group's expansion.

32. ACQUISITION OF SUBSIDIARIES – *continued*

(c) Acquisition of 84.27% equity interest in Jinzhou Maoshan Anling – *continued*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

Net assets acquired:	**RMB'000**
Property and equipment	25,303
Intangible assets	71
Cemetery assets	52,872
Inventories	13,140
Other receivables	21,097
Bank balances and cash	5,963
Trade and other payables	(28,682)
Deferred tax liabilities	(4,200)
Borrowings	(6,927)
	78,637
Non-controlling interests	(12,375)
Goodwill	3,738
Satisfied by:	
Cash paid in 2012	70,000
Net cash outflow arising on acquisition:	
Cash consideration paid	70,000
Less: bank balances and cash acquired	(5,963)
	64,037

The fair value and gross contractual amounts of other receivables at the date of acquisition approximated their carrying amounts and were expected to be fully recovered in the future.

The non-controlling interests 15.73% in Jinzhou Maoshan Anling recognized at the acquisition date was measured by reference to their proportionate share of the fair value of identifiable net assets acquired.

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

32. ACQUISITION OF SUBSIDIARIES – *continued*

(c) Acquisition of 84.27% equity interest in Jinzhou Maoshan Anling – *continued*

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

Included in the profit for the year ended December 31, 2012 is approximately RMB2,657,000 attributable to the additional business generated by Jinzhou Maoshan Anling. Revenue for the year ended December 31, 2012 includes approximately RMB31,201,000 generated from Jinzhou Maoshan Anling.

Had the acquisition been completed on January 1, 2012, total group revenue for the year would have been approximately RMB495,017,000, and profit for the year would have been approximately RMB138,129,000. The pro forma information is for illustrative purposes 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, 2012, nor is it intended to be a projection of future results.

33. OPERATING LEASES

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's outlets which fall due as follows:

	2013 **RMB'000**	2012 RMB'000
Within one year	**5,243**	3,190
In the second to fifth years inclusive	**7,356**	4,429
After five years	**103**	78
	12,702	7,697

Operating lease payments represent rentals payable by the Group for certain properties and land. The majority of the leases typically run for an initial period of two to five years.

34. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure in respect of the acquisition of property and equipment:		
– contracted for but not provided in the consolidated financial statements	**70,519**	85,897
– authorized but not yet contracted for	**60,000**	800

35. RETIREMENT BENEFITS SCHEME

The Group participates in a Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. For members of the MPF Scheme, the Group contributes 5%, with maximum of HK$2,500 per person of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the PRC subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC Government. The PRC subsidiaries are required to contribute 12% to 22% of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the PRC subsidiaries with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB9,003,000 for the year ended December 31, 2013 (2012: RMB6,751,000), represent contributions paid and/or payable to the schemes by the Group for the years ended December 31, 2013 and 2012.

36. RELATED PARTY DISCLOSURES

(a) Amounts due from related parties

	2013 RMB'000	2012 RMB'000
Associates of the Group		
Shanghai Nanyuan ^	—	10
Founding Shareholder		
Zhongfu	—	10,495
Shareholders		—
Treasure Bridge Investments Limited	—	17
Chief Union Investments Limited	—	17
Double Riches Investments Limited	—	5
Members of the Initial Group		
Individual Shareholders		
Wang Ji Sheng	—	1,352
Ge Qiansong	—	902
	—	12,798

The above balances were non-trade balances, unsecured and fully settled during the current year. Except for an amount due from Zhongfu of approximately RMB10,495,000 as at December 31, 2012, with fixed interest rates at 6.00% per annum, other balances are non-interest-bearing.

^ This entity became a subsidiary of the Group in 2013.

36. RELATED PARTY DISCLOSURES – *continued*

(b) Amounts due to related parties

	2013 RMB'000	2012 RMB'000
Founding Shareholders		
Anhe	—	19,000
Zhongfu	—	27,514
Entities controlled by the Founding Shareholders		
Glory Line Limited	—	35,675
Millennium Investment Limited	—	3,162
Shanghai Zhongfu International Trading Co., Ltd. * 上海眾福國際貿易有限公司	—	9,000
Members of the Initial Group Individual Shareholders		
Wang Jisheng	—	4,080
Ge Qiansong	—	2,720
Li Jianning	—	500
	—	101,651
Carrying amounts shown under:		
Current liabilities	—	65,476
Non-current liabilities	—	36,175
	—	101,651

* The English names of the above entities established in the PRC are translated for identification purpose only.

The above balances were non-trade balances, unsecured and interest-free and fully settled in 2013.

As at December 31, 2012, Glory Line Limited and Li Jianning had respectively provided written confirmations to the Group in confirming that these parties shall not demand repayment of the respective amounts due to them within the twelve months from each of the year end. Accordingly, the respective amounts due to these parties were shown under non-current.

(c) Related party transactions

During the years ended December 31, 2013 and 2012, the Group entered into the following transactions with related parties:

	2013 RMB'000	2012 RMB'000
Interest income generating from borrowings		
Zhongfu	238	2,275

36. RELATED PARTY DISCLOSURES – *continued*

(d) Purchase from related party

	2013	2012
	RMB'000	RMB'000
Entity controlled by the founding Shareholders		
Shanghai Zhongfu Engineering Construction Co., Ltd. 上海中福工程建設有限公司	**—**	291

(e) Compensation of key management personnel

The remuneration of Directors, who are also key management, is disclosed in note 12.

(f) Guarantee by related party

As disclosed in note 27, the other borrowings of the Group as of December 31, 2012 were guaranteed by Zhongfu.

37. LOANS FROM NON-CONTROLLING INTERESTS

	2013	2012
	RMB'000	RMB'000
Hefei Shushan Martyr Cemetery Lingyuan Management * 合肥蜀山烈士陵園管理處	**—**	900
Shandong World Trade Centre 山東世界貿易中心	**38,173**	44,989
	38,173	45,889

* The English names of the entity established in the PRC are translated for identification purpose only.

The loan from Shandong World Trade Centre of RMB38,173,000 (2012: RMB44,989,000) as at December 31, 2013, carried fixed interest rates at 9.18% (2012: 9.20%) per annum.

As at December 31, 2013 and 2012, Shandong World Trade Centre has provided a written confirmation to the Group in confirming that it shall not demand repayment of the amount due to it within the twelve months from each of the year end. Accordingly, the amount is shown under non-current as at December 31, 2013 and 2012.

38. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2013, the Founding Shareholders took up amounts due to related parties amounting to RMB79,667,000 and waived the repayment of the same amount. The waiver is accounted for as deemed contribution from the Shareholders.

During the year ended December 31, 2013, the Group issued 1,499,990,000 new ordinary shares by way of capitalization.

39. DETAILS OF SUBSIDIARIES

The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2013 and 2012 are as follows:

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31,		Principal activities
				2013 %	2012 %	
Directly held:						
FSY Hong Kong* 福壽園集團(香港)有限公司	Hong Kong	October 10, 2011	2 share of HK$1.00 each	**100**	100	Investment holding
Indirectly held:						
Chongqing FSY Industrial* 重慶福壽園實業有限公司	PRC	January 18, 2011	RMB89,940,896	**100**	100	Investment holding
Shanghai FSY Industry Development 上海福壽園實業發展有限公司	PRC	February 21, 1994	RMB30,000,000	**100**	100	Provision of burial services
Shanghai Fu Shou Yuan Corporate Management Consultancy Company Limited 上海福壽園企業管理諮詢有限公司	PRC	September 9, 2002	RMB5,000,000	**100**	100	Provision of consulting services relating to burial and cemetery maintainers
Henan FSY Industrial (note (a)) 河南福壽園實業有限公司	PRC	July 7, 2003	RMB30,120,000	**100**	55	Provision of burial services
Chongqing Fu Shou Yuan Consultancy Company Limited* 重慶福壽園企業管理諮詢有限公司	PRC	August 9, 2010	RMB10,000,000	**100**	100	Investment holding
Hefei Dashushan Wenhua Lingyuan Company Limited "Hefei Dashushan Co" (note (b)) 合肥大蜀山文化陵園有限公司	PRC	February 22, 2002	RMB10,000,000	**60**	60	Provision of burial services
Hefei Renben Funeral Service Company Limited "Hefei Renben"(note (c)) 合肥人本殯儀服務有限公司	PRC	September 27, 2008	RMB1,200,000	**60**	60	Provision of funeral services
Hefei Huazhijian Flowers Company Limited "Hefei Huazhijian" 合肥花之間花卉有限公司	PRC	May 13, 2010	RMB500,000	**60**	60	Provision of flowers and related designing services

39. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2013 %	(2012 %	Principal activities
Chongqing Anle Services 重慶安樂服務有限公司	PRC	September 11, 1997	RMB1,000,000	**100**	100	Provision of funeral services
Chongqing Anle Funeral Services 重慶安樂殯儀服務有限公司	PRC	January 23, 2003	RMB1,000,000	**100**	100	Provision of funeral services
Shanghai Fu Shou Yuan Funeral Arrangement Services Co., Ltd* 上海福壽園禮儀服務有限公司	PRC	May 17, 2011	RMB500,000	**100**	100	Provision of burial services
Jinzhou Maoshan Anling (note (d)) 錦州市帽山安陵有限責任公司	PRC	January 7, 2004	RMB8,000,000	**100**	84.27	Provision of burial services
Fumao Corporate Management Consultancy (Shanghai) Company Limited * 福泖企業管理諮詢(上海)有限公司	PRC	January 27, 2011	RMB5,000,000	**100**	100	Investment holding
Chongqing Fu Shou Yuan Shareholding Investment Corporation (Limited Partnership)* 重慶福壽園股權投資企業(有限合夥)	PRC	November 10, 2010	RMB52,138,207	**100**	100	Investment holding
Nanchang Hongfu 南昌洪福人文紀念有限責任公司 (note (e))	PRC	November 17, 2009	RMB90,000,000	**50.89**	50.89	Sale of funeral and coffin furnishings burial plots
Chongqing Fuyuan Corporate Management Consultancy Company Limited* 重慶福元企業管理諮詢有限公司	PRC	January 20, 2012	USD1,000,000	**100**	100	Investment holding
Xiamen Huaixiang Condolence Services Company Limited* 廈門懷祥禮儀服務有限公司	PRC	December 31, 2012	RMB1,500,000	**100**	90	Provision of funeral services

39. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2013 %	2012 %	Principal activities
Anhui Province Zhongfude Power Saving Environmental Friendly Technology Company Limited* 安徽省中福德節能環保科技有限公司	PRC	November 20, 2012	RMB10,000,000	**100**	100	Manufacturing of cremation devices
Shandong Fu Shou Yuan Development Company Limited "Shandong FSY Development" 山東福壽園發展有限公司 (note (f))	PRC	December 29, 2001	RMB10,000,000	**50**	50	Provision of burial services
Ningbo Yongyi Funeral Services Company Limited* "Ningbo Yongyi" 寧波永逸殯葬禮儀服務有限公司 (note (g))	PRC	January 9, 2013	RMB1,000,000	**80**	—	Provision of funeral services
Shanghai Nanyuan^ 上海南院實業發展有限公司	PRC	January 25, 2007	RMB50,000,000	**40**	(note (h))	Provision of burial services
Shanghai Zhongfude Power Saving Machine Design Manufacturing Company Limited 上海中福德節能環保機械設計製造有限公司	PRC	March 21, 2013	RMB10,000,000	**100**	—	Sales and after-sales service of cremation devices
Shanghai Senfu Fruits and Vegetables Technological Development Company Limited*^ 上海森福蔬果科技發展有限公司	PRC	July 2, 2013	RMB1,600,000	**51**	—	Inactive
Shanghai Fu Shou Yuan Jingguan Design Company Limited*^ 上海福壽園景觀規劃設計有限公司	PRC	January 9, 2013	RMB1,000,000	**95**	—	Inactive
Wuhan Changle Fu Shou Yuan Funeral Services Company Limited*^ 武漢長樂福壽殯儀服務有限公司	PRC	October 30, 2013	RMB1,000,000	**51**	—	Inactive

39. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31,		Principal activities
				2013 %	2012 %	
Zhengzhou Longhu Plants and Flowers Company Limited^ "Zhengzhou Longhu" 鄭州龍湖苗木花卉有限公司(note (i))	PRC	October 27, 2005	RMB1,000,000	–	55	Planting and sales of flowers and nursery stock

The English names of all subsidiaries established in the PRC are translated for identification purpose only.

* These entities are set up during the years ended December 31, 2013 and 2012.

^ These entities are established in the PRC in the form of domestic limited liability company.

+ These entities are established in the PRC in the form of wholly foreign-owned enterprise.

– The entity is established in the PRC in the form of limited liability partnership.

Notes:

(a) During the year ended December 31, 2012 and up to January 14, 2013, the Group has 72.76% voting rights in the shareholders' meeting of Henan FSY Industrial, 55% of which was directly held by the Group, and 17.76% of which was assigned unconditionally and without conditions to the Group, while a valid resolution requires more than 66.67% of the vote from all shareholders. The Group has the practical ability to direct the relevant activities of Henan FSY Industrial unilaterally. Therefore, Henan FSY Industrial is accounted for as a non-wholly owned subsidiary of the Group for the year ended December 31, 2012 and up to January 14, 2013. On January 15, 2013, Shanghai FSY Industry Development, a wholly-owned subsidiary of the Group, acquired the remaining 45% equity in Henan FSY Industrial from non-controlling interests for a consideration of RMB17,688,000. After the acquisition, Henan FSY Industrial became an indirectly wholly-owned subsidiary of the Company.

(b) The Group has 60% voting rights in the shareholders' meeting of Hefei Dashushan Co, while a valid resolution requires more than 50% of the vote from all shareholders. The Group has the practical ability to direct the relevant activities of Hefei Dashushan Co unilaterally. Therefore, Hefei Dashushan Co is accounted for as a subsidiary of the Group during the years ended December 31, 2013 and 2012.

(c) Hefei Renben and Hefei Huazhijian are wholly owned subsidiaries of Hefei Dashushan Co, a 60% owned subsidiary of the Group. Since the Group has the practical ability to direct the relevant activities of Hefei Dashushan Co unilaterally as set out in note(b), Hefei Renben and Hefei Huazhijian are accounted for as subsidiaries of the Group.

(d) Controlling interests are acquired in May 2012 and the remaining 15.73% in Jinzhou Maoshan Anling is held by Jinzhou City Cemetery Administration (錦州市公墓管理處). This entity has become a wholly-owned subsidiary of the Company on January 10, 2013. Details are set out in note 32(c).

(e) Controlling interests are acquired on December 16, 2012 and the remaining 49.11% in Nanchang Hongfu is held by Anyi Municipal Public Investment Construction Co., Ltd (南昌市政公用投資控股有限責任公司) (40%) and Nanchang Funeral Administration (南昌市殯葬管理處) (9.11%), respectively. Details are set out in note 32(b).

39. DETAILS OF SUBSIDIARIES – *continued*

Notes: – *continued*

(f) Since all other equity holder of Shandong FSY Development assigned irrevocable rights to Chongqing FSY Industrial to direct the relevant activities of Shandong FSY Development unilaterally, controlling interests are acquired on March 1,2011 and the remaining 50% in Shandong FSY Development is held by Shandong World Trade Centre (山東世界貿易中心).

(g) Controlling interests are acquired on January 28, 2013. The Company held 80% equity interest in Ningbo Yongyi and the remaining 20% equity interest is held as to 10% by Zhang Cheng (張成), an employee of our Group, and 10% by Li Xingyu (李杏雨), an independent third party.

(h) Shanghai Nanyuan was an associate of the Group prior to January 4, 2013. On January 4, 2013, the Group has been assigned irrevocable rights unconditionally and without conditions to direct the relevant activities of Shanghai Nanyuan unilaterally. As such, Shanghai Nanyuan is accounted for as a subsidiary of the Group from January 4, 2013. Details are set out in notes 20 and 32(a).

(i) Zhengzhou Longhu was liquidated and deregistered on October 13, 2013.

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Henan FSY Industrial	PRC	**—**	45	**—**	2,991	**—**	42,677
Hefei Dashushan Co	PRC	**40**	40	**11,508**	10,385	**20,708**	19,200
Jinzhou Maoshan Anling	PRC	**—**	15.73	**—**	418	**—**	12,793
Nanchang Hongfu	PRC	**49.11**	49.11	**(980)**	—	**43,218**	44,198
Shandong FSY Development	PRC	**50**	50	**(1,744)**	137	**16,803**	18,547
Shanghai Nanyuan	PRC	**60**	(note)	**14,136**	—	**82,163**	—
Individually immaterial subsidiaries with non-controlling interests				**(95)**	—	**1,927**	500
Total				**22,825**	13,931	**164,819**	137,915

Note:

As disclosed in note 39, Shanghai Nanyuan was an associate of the Group prior to January 4, 2013 and became a subsidiary since January 4, 2013.

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Henan FSY Industrial

	2012 RMB'000
Current assets	59,770
Non-current assets	76,435
Current liabilities	17,153
Non-current liabilities	24,214
Equity attributable to owners of the Company	52,161
Non-controlling interests	42,677

	2012 RMB'000
Revenue	29,712
Expense	(23,064)
Profit and total comprehensive income attributable to the owner of the Company	3,657
Profit and total comprehensive income attributable to the non-controlling interests	2,991
Profit and total comprehensive income for the year	6,648
Net cash inflow from operating activities	7,203
Net cash outflow from investing activities	(3,849)
Net cash inflow	3,354

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Hefei Dashushan Co

	2013 RMB'000	2012 RMB'000
Current assets	**75,843**	65,781
Non-current assets	**21,205**	14,600
Current liabilities	**34,121**	22,241
Non-current liabilities	**11,157**	10,140
Equity attributable to owners of the Company	**31,062**	28,800
Non-controlling interests	**20,708**	19,200

	2013 RMB'000	2012 RMB'000
Revenue	**67,969**	62,727
Expenses	**(39,199)**	(36,766)
Profit and total comprehensive income attributable to the owner of the Company	**17,262**	15,576
Profit and total comprehensive income attributable to non-controlling interests	**11,508**	10,385
Profit and total comprehensive income for the year	**28,770**	25,961
Dividends paid to non-controlling interests	**10,000**	9,200
Net cash inflow from operating activities	**23,769**	28,996
Net cash outflow from investing activities	**(25,125)**	(99)
Net cash outflow from financing activities	**—**	(23,000)
Net cash (outflow) inflow	**(1,356)**	5,897

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Jinzhou Maoshan Anling

	2012
	RMB'000
Current assets	33,543
Non-current assets	81,362
Current liabilities	30,017
Non-current liabilities	3,559
Equity attributable to owners of the Company	68,536
Non-controlling interests	12,793

	2012
	RMB'000
Revenue	31,201
Expenses	(28,544)
Profit and total comprehensive income attributable to the owner of the Company	2,239
Profit and total comprehensive income attributable to non-controlling interests	418
Profit and total comprehensive income for the year	2,657
Net cash inflow from operating activities	11,833
Net cash outflow from investing activities	(2,432)
Net cash outflow from financing activities	(8,820)
Net cash inflow	581

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Nanchang Hongfu

	2013	2012
	RMB'000	RMB'000
Current assets	**48,612**	90,455
Non-current assets	**42,863**	20
Current liabilities	**3,473**	477
Equity attributable to owners of the Company	**44,784**	45,800
Non-controlling interests	**43,218**	44,198

	2013	2012
	RMB'000	RMB'000
Revenue	**—**	—
Expenses	**(1,996)**	—
Loss and total comprehensive income attributable to the owner of the Company	**(1,016)**	—
Loss and total comprehensive income attributable to non-controlling interest	**(980)**	—
Loss and total comprehensive income for the year	**(1,996)**	—
Net cash outflow from operating activities	**(34,093)**	—
Net cash outflow from investing activities	**(42,337)**	—
Net cash outflow	**(76,430)**	—

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Shandong FSY Development

	2013 RMB'000	2012 RMB'000
Current assets	**37,930**	22,462
Non-current assets	**128,695**	128,359
Current liabilities	**84,175**	67,434
Non-current liabilities	**48,844**	46,293
Equity attributable to owners of the Company	**16,803**	18,547
Non-controlling interests	**16,803**	18,547

	2013 RMB'000	2012 RMB'000
Revenue	**36,416**	35,354
Expenses	**(39,904)**	(35,080)
(Loss) profit and total comprehensive income attributable to the owner of the Company	**(1,744)**	137
(Loss) profit and total comprehensive income attributable to non-controlling interest	**(1,744)**	137
(Loss) profit and total comprehensive income for the year	**(3,488)**	274
Net cash inflow (outflow) from operating activities	**3,862**	(3,370)
Net cash outflow from investing activities	**(583)**	(14)
Net cash inflow from financing activities	**—**	2,000
Net cash inflow (outflow)	**3,279**	(1,384)

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS – *continued*

Shanghai Nanyuan

	2013 RMB'000
Current assets	111,269
Non-current assets	73,873
Current liabilities	42,099
Non-current liabilities	6,104
Equity attributable to owners of the Company	54,776
Non-controlling interests	82,163

	2013 RMB'000
Revenue	67,049
Expenses	(43,489)
Profit and total comprehensive income attributable to the owner of the Company	9,424
Profit and total comprehensive income attributable to non-controlling interest	14,136
Profit and total comprehensive income for the year	23,560
Dividends paid to non-controlling interests	9,902
Net cash inflow from operating activities	22,249
Net cash outflow from investing activities	(876)
Net cash inflow	21,373

41. INFORMATION OF FINANCIAL POSITIONS OF THE COMPANY

The statement of financial position of the Company as at December 31, 2013 and 2012 are as follows:

	2013 RMB'000	2012 RMB'000
Investments in subsidiaries	—	—
Amount due from a subsidiary	1,146,907	—
Bank balances and cash	204,615	11
Total assets	1,351,522	11
Amount due to a subsidiary	27,077	—
Amount due to related parties	—	40
Dividends payable	55,000	—
Total liabilities	82,077	40
	1,269,445	(29)
Capital and reserves		
Share capital	121,158	—
Reserves (Note (a))	1,148,287	(29)
	1,269,445	(29)

Note (a):

	Share premium RMB'000 (note (b))	Special reserve RMB'000	Share option reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At date of incorporation	—	—	—	—	—
Loss and total comprehensive expense for the year	—	—	—	(29)	(29)
At December 31, 2012	—	—	—	(29)	(29)
Issue of shares at premium through initial public offerings	1,270,575	—	—	—	1,270,575
Transaction costs attributable to issue of new shares	(84,616)	—	—	—	(84,616)
Capitalization of share premium	(90,868)	—	—	—	(90,868)
Deemed contribution from the shareholders	—	79,667	—	—	79,667
Share based compensation	—	—	6,576	—	6,576
Profit and total comprehensive income for the year	—	—	—	21,982	21,982
Dividends recognized as distributions	—	—	—	(55,000)	(55,000)
At December 31, 2013	**1,095,091**	**79,667**	**6,576**	**(33,047)**	**1,148,287**

Note (b): Pursuant to section 34 of the Cayman Companies Law (2003: Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency on the Company and the provision of the Articles of Association of the Company.

DEFINITIONS AND GLOSSARY

"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AGM"	the annual general meeting of the Company to be held on May 15, 2014
"Anhui Zhongfude"	Anhui Province Zhongfude Power Saving Environmental Friendly Technology Company*(安徽省中福德節能環保科技有限公司), a company established in the PRC on November 20, 2012, and an indirect wholly-owned subsidiary of the Company
"Annual Report"	this annual report dated March 26, 2014 of the Company
"Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on December 3, 2013 (as amended, supplemented or otherwise modified from time to time)
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	Compound annual growth rate
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
"Chief Union"	Chief Union Investments Limited, a limited liability company incorporated in BVI on October 28, 2011, one of the Company's Shareholders and a direct wholly-owned subsidiary of Fulechuan
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this Annual Report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"China Healthcare"	China Healthcare Holdings Limited, a company listed on the Stock Exchange (HKSE stock code: 673), and an independent third party
"Chongqing FSY Industrial"	Chongqing Fu Shou Yuan Industrial Co., Ltd.* (重慶福壽園實業有限公司), a company established in the PRC on January 18, 2011. It is an indirect wholly-owned subsidiary of the Company
"Chongqing Zhonghan Xinye"	Chongqing Yuzhong District Zhonghan Xinye Small Amount Credit Co., Ltd. (重慶市渝中區中漢信業小額貸款股份有限公司), an independent third party
"Company", "our Company", "Fu Shou Yuan", "us" or "we"	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

DEFINITIONS AND GLOSSARY

"Companies Law"	the Companies Law (as revised) of the Cayman Islands (as amended, supplemented or otherwise modified from time to time)
"Compliance Committee"	the compliance committee of the Company
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Double Riches"	Double Riches Investments Limited, a limited liability company incorporated in the BVI on October 28, 2011, and one of our Shareholders
"EIT"	PRC enterprise income tax
"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 Company's Shareholders
"Fulechuan"	Fulechuan International Group Co., Ltd. (福利川國際集團有限公司*), a company registered in Thailand on October 19, 2010. It is the sole shareholder of Chief Union and one of the Company's indirect Shareholders
"GDP"	gross domestic product
"GFA"	gross floor area
"Global Offering"	the offering by the Company of initially 500,000,000 Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013
"Grand Fire"	Grand Fire Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Lu Hesheng (陸鶴生), the non-executive Director
"Group", "our Group", "us" or "we"	our Company and its subsidiaries at the relevant point of time (including where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company)
"Hefei Dashushan Co"	Hefei Dashushan Culture Cemetery Co., Ltd.* (合肥大蜀山文化陸園有限公司), a company established in the PRC on February 22, 2002, owned as to 40% by Chongqing FSY Industrial, 40% by Hefei Shushan Martyr Cemetery Management Department* (合肥蜀山烈士陸園管理處), and 20% by Shanghai FSY Industry Development. It is an indirect non wholly-owned subsidiary of the Company

DEFINITIONS AND GLOSSARY

"Henan FSY Industrial"	Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), formerly known as Henan Zhongzhou Mingrenyuan Development Management Co., Ltd.* (河南中州名人園開發管理有限公司), a company established in the PRC on July 7, 2003. It is an indirect 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
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"IFRS"	International Financial Reporting Standards
"independent third party(ies)"	individual(s) or company(ies) who is not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
"Lending General Provisions"	Lending General Provisions issued by the PBOC（中國人民銀行貸款通則）
"Listing"	listing of the Shares on the Stock Exchange
"Listing Date"	December 19, 2013, the date on which dealings in the Shares first commence on the Stock Exchange
"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
"Nanchang Hongfu"	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a company established in the PRC on November 17, 2009, and owned as to 50.89% by Shanghai FSY Industry Development, 40% by Nanchang City Public Investment Holdings Co., Ltd.* (南昌市政公用投資控股有限責任公司) and 9.11% by Burial Management Department of Nanchang City* (南昌市殯葬管理處). It is an indirect non-wholly owned subsidiary of the Company

"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
"Nomination Committee"	the nomination committee of the Company
"PBOC"	the People's Bank of China
"Peaceful Field"	Peaceful Field Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Wang Jisheng (王計生), the executive Director
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on March 10, 2013
"Prospectus"	the prospectus of the Company dated December 9, 2013
"Remuneration Committee"	the remuneration committee of the Company
"RMB"or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Shandong FSY"	Shandong Fu Shou Yuan Development Co., Ltd.* (山東福壽園發展有限公司), a company established in the PRC on December 29, 2001, and owned as to 50% by Chongqing FSY Industrial and 50% by Shandong World Trade Centre. It is an indirect non wholly-owned subsidiary of the Company
"Shandong World Trade Centre"	Shandong World Trade Centre* (山東世界貿易中心), an independent third party and a 50% shareholder of Shandong FSY
"Shanghai FSY Industry Development"	Shanghai Fu Shou Yuan Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a company established in the PRC on February 21, 1994. It is an indirect wholly-owned subsidiary or the Company

DEFINITIONS AND GLOSSARY

"Shanghai Nanyuan"	Shanghai Nanyuan Industrial Development Co., Ltd.* (上海南院實業發展有限公司), a company established in the PRC on January 25, 2007, and owned as to 40% by Shanghai FSY Industry Development, 40% by Shanghai Lingang College Economic Development Co., Ltd.* (上海臨港書院經濟發展有限 公司), and 20% by Shanghai Agricultural Industrial and Commercial Group East Ocean Company* (上海農工商集團東海總公司). It is an indirect non wholly-owned subsidiary of the Company
"Shanghai Zhongfu"	Shanghai Zhongfu International Trade Co., Ltd.,* (上海眾福國際貿易有限公司), a company established in the PRC. It was a wholly-owned subsidiary of Zhongfu
"Share(s)"	ordinary share(s) with a nominal value of US$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on December 3, 2013
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs (as amended, supplemented or otherwise modified from time to time)
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"United States dollars" or "US dollars" or "US$"	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 Bai Xiaojiang (白曉江), the chairman and one of the executive Directors of the Company
"Zhongfu"	China Zhongfu Industrial Co., Ltd.* (中國中福實業有限公司), formerly known as China Zhongfu Industrial Corporation (中國中福實業總公司), 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 of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.