福壽園國際集團有限公司

FU SHOU YUAN INTERNATIONAL GROUP LIMITED

Incorporated in the Cayman Islands with limited liability

2014
ANNUAL REPORT

Stock code: 01448

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
Mr. Wang Jisheng
Mr. Ho Man

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

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Hong Kong

PRINCIPAL BANKERS

Citibank, N.A.
Shanghai Pudong Development Bank
Shanghai Rural Commercial Bank
The Bank of East Asia Limited

AUDITOR

Deloitte Touche Tomatsu

STOCK CODE

1448

WEBSITE

http://www.fsygroup.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the 2014 full-year results of the Group.

Since the Shares of the Group were listed on the Stock Exchange in December 2013, the Group has been committed to implementing the development plan set out in the initial public offering prospectus dated December 9, 2013 to further develop the existing markets and expand its presence across the country. During the period under review, the Group recorded considerable achievements and its revenue amounted to RMB795.1 million, representing an increase of 30.0% from 2013 (2013 : RMB611.8 million). Benefiting from the organic growth of the Group's core businesses and the continued optimization of internal management, during the period under review, the gross profit margin of the Group was 80.0% (2013: 80.4%). Profit and total comprehensive income attributable to shareholders was RMB230.4 million, representing an increase of approximately 37.7% from last year (2013: RMB167.3 million).

Fu Shou Yuan insists on sharing achievements with investors. The Board proposes a final dividend of HK1.95 cents per share for 2014 to the Shareholders. Together with the interim dividend of HK1.95 cents per share distributed during the year, the total dividend for the full year of 2014 is HK3.9 cents per share, which is in line with the Group's dividend policy of maintaining a payout ratio of no less than 25% to reward all investors for their support.

2014 was the 20th anniversary of the establishment of Fu Shou Yuan Group and was also the first year after the listing of the Group. The Group recorded remarkable achievements during the period by leveraging on its capital advantages after listing, advanced operation philosophy and extensive management experience in the death care industry, as well as its proactive business expansion during the year. During the period under review, the Group not only further consolidated and optimized its operations in existing markets but also carried out mergers and acquisitions to map out the overall strategic presence which covers the whole nation. By evaluating the factors such as demographic characteristics, local funeral traditions, the competitive landscape and development stages of the death care services industry, the Group acquired merger and acquisition targets in a systematic and prudent way to prepare for venturing into areas where the Group has not established a presence. In addition, the Group took advantage of the favourable policy which encourages cooperation between the government and social capital to enter into strategic partnerships with local government bodies to invest in and operate local death care enterprises, support local death care reforms and pass on the advanced experience and culture of Fu Shou Yuan. During the period, the Group focused on development in Central and Northeast China and plan to establish nationwide business coverage through the Northeast market and replicate its successful experience to the whole country.

During the period under review, the Group carried out various merger, acquisition and cooperation projects, including the acquisition of Chongqing Baitayuan Funeral and Burial Development Co., Ltd (重慶白塔園殯葬開發有限公司), Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd. (遼寧觀陵山藝術園林公墓有限公司), Zaozhuang Shanting Xingtai Funeral Services Co., Ltd (棗莊市山亭興泰殯儀服務有限公司) and Wuyuan Wanshoushan Lingyuan Co., Ltd (婺源縣萬壽山陵園有限公司); entered into strategic cooperation agreements with the government of Hunnan District, Shenyang City, the government of Fushun City and the government of Jinzhou City, Liaoning Province; and entered into an investment cooperation agreement with Anhui Huaibei City Cemetery (安徽淮北市陵園). In addition, two funeral parlours with cremation facilities were acquired along with these enterprises, which will facilitate the Group to further build up a complete business chain, fill the industrial chain gap and drive the sturdy growth in profitability. Through the above mergers and acquisitions, the Group acquired land with an area of more than 3.2 million square metres in 2014, of which land with certificates represented approximately 780,000 square metres. This success has surpassed the overall achievement of Fu Shou Yuan in its 20 years of development history. The Group will leverage its abundant development sites and cash resources to expand its operations to generate economies of scale and synergy for the Group and its shareholders.

Since becoming one of the first enterprises entering the death care services industry in 1994, Fu Shou Yuan has now become the largest death care services provider in China which provides professional and tailor-made death care services and enjoys a good reputation in 12 cities in the country. The present industry position and brand value of the Group were not only the results of the Group's professional high-quality services and team and insight into the industry and outstanding integration capability but also due to the fact that the green death care, humanities memorial and life undertakings currently engaged by the Group are solidly in line with the pace of urbanization and aging population in the PRC, thus allowing the Group firmly grasp the major trends of modernization, humanity, environmental protection and technology in the death care business in China. During 2014, all local branches of Fu Shou Yuan launched collective tree burial, lawn burial and burial at sea that meet ecological and land conservation purposes. Besides, environmentally friendly and scientific new memorial means such as online memorial were introduced. Such innovative means aroused much social concern and were widely accepted by the society. This facilitated the Group to pursue sustainable development for achieving win-win of profit growth and social benefits.

Over the year since our listing, Fu Shou Yuan has been granted various awards, which include a ranking of 82th, in the "Forbes Top 100 Potential listed Enterprises in China" in recognition of our outstanding performance, and also marked an unprecedented success of becoming the first selected death care enterprise since the release of the list. Apart from this, the Group has been selected as "Ten Best Brands for Innovation of Corporate Culture in Shanghai", awarded the "Silver Prize for Case Appraisal of Excellent Public Relationship in Shanghai" and "Charity Honour Award" by The Community Chest of Hong Kong in the past year, representing the wide recognition from various sectors of the community of our contribution to social charity and our philosophy in corporate culture, which is "to break from tradition, enlighten the future, respect and pay tribute to lives".

CHAIRMAN'S STATEMENT

As a leader in the death care services industry in the PRC, Fu Shou Yuan has persisted in assuming social responsibility and has upheld Chinese traditional values and cultural heritage. With this sense of responsibility, Fu Shou Yuan continued to walk on the road of charity and organized a series of charitable death care activities. In late 2014, Shanghai Fu Shou Yuan held a collective burial ceremony for the deceased elderly living alone or widowed and extremely poor families, providing the deceased a land of peace. The Group wants to dedicate its efforts in helping those in need in the society by way of humanities memorial so as to let the deceased rest in peace.

Looking ahead, Fu Shou Yuan will make persistent efforts to uphold the Group's development objective and philosophy for 20 years to promote a positive, healthy, civilized and peaceful Chinese culture with people as the basis and culture as the root and contribute in building a harmonious relation with the environment. In 2015, in view of the still immature market regulation, the Group will conduct appropriate and highly cost-effective mergers and acquisitions through large-scale investigations and studies and in strict compliance with laws and regulations. After the acquisitions, by leveraging its quality management and operation, Fu Shou Yuan will proceed with cultural packaging and quality enhancement to increase the added value of the graveyards acquired so as to increase the overall level of quality and quantity of products and services, as well as to make overall headway towards standardization and personalization. The next year will be another year for Fu Shou Yuan to implement ambitious plans and expand its operations. The Group will unleash its market integration potential to generate considerable returns for investors. Meanwhile, being a model enterprise, the Group will continue to lead the modernization reform of the death care business in China, promote the healthy development of the national death care culture in terms of humanity, charity and environmental protection and commit itself to operating Fu Shou Yuan, a living entity that carries memories and emotions, in an appropriate way, so as to reward all investors with the best results.

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

Hong Kong, March 18, 2015

MARKET OVERVIEW

"Filial piety" has long been one of the Chinese traditional culture and virtues and also an important base for the existence and development of death care industry in the mainland China. Since taking office, the current government has been actively encouraging people to inherit the gems of Chinese traditional culture, which facilitates the development of modern funeral industry in the mainland China. The accelerated urbanization process and aging population have created large demand for funeral services. As the disposable income per capita in the mainland China increases, the national consumption power for funeral services is also increased. In addition, the funeral services market in the mainland China is highly fragmented and less developed. Each regional market is relatively closed with high level of nationalization. In order to accelerate the transformation of the government's role, the central government actively promoted private capital investment in the reform and upgrading of various public services including the death care services industry during the year, which provided good opportunities for Fu Shou Yuan Group to expand and improve its business across the country as well as the whole death care services industry.

BUSINESS REVIEW

2014 was the first full year of Fu Shou Yuan Group after its listing. As always, we have provided high quality and customized death care services to our customers in order to make them feel the respect and dignity and express their grief and filial piety. Our elaborate and beautiful cemeteries as well as customized services that we strived to provide continued to be widely recognized by our customers.

Leveraging its capital advantages after its listing as well as the advanced operation philosophy and extensive management experience in the death care industry, Fu Shou Yuan Group actively expanded its business and achieved excellent results. In 2014, we added a number of cemeteries and funeral facilities in Shenyang City of Liaoning Province, Chongqing, Nanchang City of Jiangxi Province, Huaibei City of Anhui Province, Zaozhuang City of Shandong Province and Wuyuan City of Jiangxi Province through acquisition of equity, cooperative development, new construction and entrusted management, etc. These new cemeteries and funeral facilities laid a good foundation for the further development of Fu Shou Yuan Group in the coming years.

In the past year, our customers were more desirably satisfied with our constantly innovative services. During the period, we implemented the 020 (online to offline) operation mode jointly with 99xy.net, an online platform serving the senior group, and funeral service providers approved by the Shanghai government. Besides, we provide professional services to the industry by developing new business segments. Following the provision of cemeteries design and construction service in 2014, we are going to introduce environmental-friendly incinerators in the coming year, thereby assisting the industry to enhance their level of service.

The advanced funeral philosophy of Fu Shou Yuan is the crucial factor for our leading position in the PRC death care industry. We have always strived to enhance the cultural connotation and taste of Fu Shou Yuan' products and services. During the process of rapid development of Fu Shou Yuan Group, in order to prevent culture or brand dilution, we established a "Cultural Committee" (文化工作委員會) so as to strengthen our leadership on the implementation of the advanced funeral philosophy of Fu Shou Yuan. Apart from a series of cultural activities promoting "filial piety" and training programs for the industry, we organized an international forum and, invited experts from the US, Australia, Japan and Taiwan to share with their peers in the mainland China in October 2014 to enhance the expertise of the industry and our staff.

BUSINESS REVIEW – *continued*

Being a service-oriented enterprise, our major competitive strengths lie in our brilliant staff. As such, we continuously optimize our promotion mechanism and recruit calibres so that we are well-positioned for further expansion. During the period, we sub-itemized the mechanism for results assessment by including indexes such as corporate governance, business innovation and personnel trainings in addition to the index for results for the purpose of implementing each and every element for the sustainable development of the Company. In order to further motivate the staff, we adopted the second tranche option incentive scheme in August 2014, to boost the internal cohesiveness.

Moreover, we deepened the internal control system and provided trainings for the staff during 2014 to ensure that the Company can maintain high level of management amid rapid development. We also dedicated efforts in risks management to ensure the stable growth of the Group. In addition, we strengthened our relationship with the investors to let them have a thorough understanding of the development strategies and operating status of the Company and the industry environment, as well as to enhance the transparency of the industry and our Company.

In summary, in 2014, Fu Shou Yuan sold a total of 10,093 tombs and provided 12,692 funeral services and recorded total sales revenue of RMB795.1 million, representing an increase of 30.0% as compared to 2013; total net profit of RMB285.1 million, representing an increase of 50.0% as compared to 2013 and net profit attributable to our shareholders of RMB230.4 million, representing an increase of 37.7% as compared to 2013.

REVENUE

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

	Year ended December 31,			
	2014		2013	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Burial services	**673,571**	**84.7%**	523,812	85.6%
Funeral services	**109,836**	**13.8%**	87,999	14.4%
Auxiliary services	**11,685**	**1.5%**	—	—
Total	**795,092**	**100.0%**	611,811	100.0%

Our revenue increased by RMB183.3 million, or 30.0%, from RMB611.8 million for the year ended Decembe 31, 2013 to RMB795.1 million for the year ended December 31, 2014. This increase was primarily driven by a 28.6%, or RMB149.8 million, increase in revenue from burial services, a 24.8%, or RMB21.8 million, increase in revenue from funeral services, and the revenue of RMB11.7 million achieved from our new auxiliary business.

REVENUE – *continued*

We have been focusing on providing top quality burial and funeral services to our customers and strengthened our sales and marketing effort during the year ended December 31, 2014. As a result, we achieved growth as compared to last year in every location where we operate. In addition, our funeral facilities in Xiamen City of Fujian Province and Ningbo City of Zhejiang Province which commenced business in the middle of year 2013, provided services throughout the full year in 2014 and contributed revenue growth of RMB7.7 million. We completed the acquisition of a cemetery in Chongqing in early August 2014 and another cemetery in Nanchang City of Jiangxi Province in early December 2014. These two cemeteries contributed revenue of RMB8.3 million since the completion of acquisition. Excluding these effects, we achieved organic revenue growth of RMB155.6 million, or 25.4% as compared with the year ended December 31, 2013, from the then existing cemeteries and funeral facilities as at December 31, 2013.

The operation of the auxiliary services commenced in the beginning of 2014 and is currently provided via a subsidiary engaging in the provision of landscaping and design services in Shanghai. Going forward, this segment will also include sale of cremation machines and other products for provision of burial services and funeral services.

Our operations are strategically located in major cities across 9 provinces in the PRC. The following table sets forth a breakdown of our revenue by region for the year under review:

	Year ended December 31			
	2014		2013	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai	**474,252**	**59.6%**	371,326	60.7%
Henan	**54,453**	**6.9%**	36,638	6.0%
Chongqing	**67,732**	**8.5%**	52,060	8.5%
Anhui	**84,682**	**10.7%**	67,969	11.1%
Shandong	**44,869**	**5.6%**	36,416	5.9%
Liaoning	**52,377**	**6.6%**	39,333	6.4%
Fujian	**13,526**	**1.7%**	7,685	1.3%
Zhejiang	**2,205**	**0.3%**	384	0.1%
Jiangxi	**996**	**0.1%**	—	—
Total	**795,092**	**100.0%**	611,811	100.0%

BURIAL SERVICES

We derive a substantial portion of our revenue from our burial services, which represented 84.7% (year ended December 31, 2013: 85.6%) of our total revenue for the year ended December 31, 2014. 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, 2014. 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							
	2014				2013			
	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	696	269,647	187,674	27.9%	633	256,670	162,472	31.0%
– Artistic	3,783	64,662	244,616	36.3%	2,032	83,427	169,524	32.4%
– Traditional	2,520	47,909	120,730	17.9%	2,068	40,594	83,948	16.0%
– Lawn	755	54,417	41,085	6.1%	952	44,915	42,759	8.2%
– Green	586	10,401	6,095	0.9%	550	10,340	5,687	1.1%
– Indoor	1,753	5,003	8,772	1.3%	1,432	5,583	7,995	1.5%
– Other burial related services	–	–	51,554	7.7%	–	–	41,280	7.9%
	10,093	–	660,526	98.1%	7,667	–	513,665	98.1%
Cemetery maintenance services	–	–	13,045	1.9%	–	–	10,147	1.9%
Total revenue from burial services	10,093	–	673,571	100.0%	7,667	–	523,812	100.0%

We sold 6,369 burial plots, excluding the green burials, indoor burials and a bath of artistic plots with 1,385 units sold to accommodate the tomb relocation funded by local government in Henan Province at RMB8.9 million, for the year ended December 31, 2014, representing 12.0% increased as compared with 5,685 plots sold for the year ended December 31, 2013. This was achieved through acquisition of two new cemeteries by 196 plots, and a combination of enhanced sales and marketing network, continuously services quality improvements, as well as more tailored pricing strategy for different segments. Furthermore, the selling prices of burial plots of each cemetery vary according to local market conditions. Therefore, average selling price for each type of burial plot is affected by change in geographical mix of burial plots sold between the years under review. As a whole, the average selling price of burial plots, excluding the green burials, indoor burials and the above mentioned tomb relocation sale in Henan, increased by approximately 13.9% for the year ended December 31, 2014 as compared with the year ended December 31, 2013.

BURIAL SERVICES – *continued*

Upon the completion of acquisition of Chongqing Baitayuan in Chongqing in early August 2014 and Meilin Century Cemetery in Nanchang City in early December 2014, we have eight cemeteries in operation in seven cities as of December 31, 2014, and have been deriving revenue from them. We achieved remarkable growth for the year ended December 31, 2014 as compared to the year ended December 31, 2013 in every cemetery where we operate. 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			
	2014		2013	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	**342,956**	**50.9%**	296,743	56.7%
Shanghai Nanyuan	**108,934**	**16.2%**	67,049	12.8%
Henan Fu Shou Yuan	**54,453**	**8.1%**	36,638	7.0%
Shandong Fu Shou Yuan	**44,869**	**6.7%**	36,416	6.9%
Hefei Dashushan Cultural Cemetery	**62,247**	**9.2%**	47,633	9.1%
Jinzhou Maoshan Anling	**52,377**	**7.8%**	39,333	7.5%
Chongqing Baitayuan	**6,740**	**1.0%**	—	—
Meilin Century Cemetery	**995**	**0.1%**	—	—
Total revenue from burial services	**673,571**	**100.0%**	523,812	100.0%

COST OF SALES AND SERVICES

Cost of sales and services consists primarily of the costs we incur in relation to 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			
	2014		2013	
	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	**119,962**	**75.3%**	94,457	78.6%
Funeral services	**30,028**	**18.9%**	25,695	21.4%
Auxiliary services	**9,269**	**5.8%**	—	—
Total	**159,259**	**100.0%**	120,152	100.0%

Our cost of sales and services increased by RMB39.1 million, or 32.5%, from RMB120.2 million for the year ended December 31, 2013 to RMB159.3 million for the year ended December 31, 2014. This increase was primarily due to a 27.0% increase in the cost of sales and services for burial services, a 16.9% increase in the cost of sales and services for funeral services, and a 100% increase in the cost of sales and service for auxiliary services. The increases were mainly due to our business growth in burial and funeral services and launch of the auxiliary services in year 2014.

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

	Year ended December 31			
	2014		2013	
	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	**44,407**	**37.0%**	33,532	35.5%
Land cost	**14,034**	**11.7%**	8,923	9.4%
Development cost	**23,815**	**19.9%**	19,246	20.4%
Cemetery maintenance cost	**8,993**	**7.5%**	7,769	8.2%
Others	**28,713**	**23.9%**	24,987	26.5%
Total	**119,962**	**100.0%**	94,457	100.0%

Our cost of sales and services for funeral services represents the various expenditures incurred in relation to providing funeral services, including salaries of operating staff and supervisors, cost of caskets and other ancillary costs.

Our cost of sales and services for auxiliary services represents the various expenditures incurred in relation to providing landscaping and design services, including staff costs, outsourcing costs, and materials purchased.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB144.2 million, or 29.3%, from approximately RMB491.7 million for the year ended December 31, 2013 to approximately RMB635.8 million for the year ended December 31, 2014. We maintained a relatively high and stable gross profit margin as we have been committing to delivering the highest quality of service in the death care services industry in the PRC. We marketed our services as premium services and our Fu Shou Yuan brand allowed us to obtain a price premium over other death care services providers. Both our gross profit margins for burial services and funeral services remained relatively stable. Our overall gross profit margin achieved was 80.0% for the year ended December 31, 2014 while the overall gross profit margin for the year ended December 31, 2013 was 80.4%. This was mainly due to the effect of relatively lower margin of our newly launched landscaping and design business. 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			
	2014		2013	
	Gross Profit (RMB'000)	**Gross Profit Margin (%)**	Gross Profit (RMB'000)	Gross Profit Margin (%)
Burial services	**553,609**	**82.2%**	429,355	82.0%
Funeral services	**79,808**	**72.7%**	62,304	70.8%
Auxiliary Services	**2,416**	**20.7%**	—	—
Total	**635,833**	**80.0%**	491,659	80.4%

OTHER INCOME AND GAINS, NET

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

	Year ended December 31	
	2014	2013
	(RMB'000)	(RMB'000)
Interest income	**54,491**	6,294
Gain on deemed disposal of associates	**—**	16,428
Government grant	**—**	5,431
Compensation	**—**	3,952
Exchange gain (loss)	**4,433**	(2,256)
Others	**(796)**	(417)
Total	**58,128**	29,432

Our interest income increased by RMB48.2 million from RMB6.3 million for the year ended December 31, 2013 to RMB54.5 million for the year ended December 31, 2014, mainly due to the significantly higher average bank deposits balance as a result of our Global Offering and better interest rate achieved from the bank for such deposits during the year.

We recorded exchange gain of RMB4.4 million for the year ended December 31, 2014, as a result of appreciation of Hong Kong dollar and US dollar during the year.

The government grant in the amount of RMB5.4 million for the year ended December 31, 2013 represented unconditional tax subsidies from the local government to encourage economic development. We did not receive such grant from government for the year ended December 31, 2014.

DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 43.9% of our total revenue for the year ended December 31, 2014 (37.4% for the year ended December 31, 2013), increased by RMB120.1 million, or 52.5%, from RMB228.9 million for the year ended December 31, 2013 to RMB349.1 million for the year ended December 31, 2014. The increase was mainly as the result of: (i) higher variable expenditures to support the business growth, (ii) higher staff costs due to the effect of amortization of expenses for the pre-IPO options granted in August 2013 and post IPO options granted in August 2014, annual salary adjustment and new hiring to support business growth and expansion, and (iii) extra expenditures to maintain as a public company since our IPO in December 2013.

OTHER EXPENSES

Other expenses of RMB26.5 million for the year ended December 31, 2013 represented the expenditures incurred, but not capitalized, for our Global Offering in year 2013, while there are no such expenses incurred during the year ended December 31, 2014.

FINANCE COSTS

Finance costs for the year ended December 31, 2014 consist of interest expense of RMB2.9 million on bank loans, interest expenses of RMB3.2 million on loans from non-controlling interests, while exclude the capitalized interest of RMB2.4 million on borrowings used for construction in progress.

Interest expense on loans from non-controlling interests refers to our interest expense in connection with: (i) 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; and (ii) the loans borrowed by our subsidiary, Meilin Century Cemetery, from Nanchang Municipal Public Investing & Holding Co., Ltd. before our acquisition to pay off its debt. Nanchang Municipal Public Investing & Holding Co., Ltd. is one of the minority shareholders of our subsidiary, Nanchang Hongfu. We plan to pay off this borrowing in year 2015. [(1)]

INCOME TAX EXPENSE

Under the EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the year with the exception of Chongqing Anle Services and Chongqing Anle Funeral Services, which were subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions. We also received considerable interest income, as discussed above, on bank deposits by our subsidiary in Hong Kong, where such income is free from any income tax according to the Hong Kong tax rules. Furthermore, we have also reversed certain prior year tax provisions as the tax uncertainties of which have been resolved in the current year under review. Mainly for the above reasons, the income tax expense decreased by approximately RMB14.2 million, or 20.1%, from approximately RMB70.3 million for the year ended December 31, 2013 to approximately RMB56.1 million for the year ended December 31, 2014. Our effective corporate income tax rates for the year ended December 31, 2014 significantly decreased to 16.5%, from that of 27% for the year ended December 31, 2013.

(1) Pursuant to Rule 14A.09(1)(b) of the Listing Rules, Nanchang Hongfu is considered an "insignificant subsidiary" of the Company. Therefore, the loans borrowed by Meilin Century Cemetery was exempted from the connected transaction requirements.

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 RMB63.1 million, or 37.7%, from approximately RMB167.3 million for the year ended December 31, 2013 to approximately RMB230.4 million for the year ended December 31, 2014. This increase was primarily due to (i) our strong revenue growth in our existing cemeteries and funeral facilities; and (ii) lower effective corporate income tax rate for the period. The increase was however partially offset by the increased operating expenses directly related to the business growth, additional resources deployed to support the Group's extensive effort in acquisition activities, amortization of expenses in connection with options granted in August 2013 and 2014, and extra expenditures to main as a public company since our Global Offering.

CASH FLOW

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

	Year ended December 31	
	2014	2013
	(RMB'000)	(RMB'000)
Net cash generated from (used in)		
– operating activities	**298,952**	161,681
– investing activities	**(480,108)**	(5,142)
– financing activities	**(66,099)**	1,100,613
Total	**(247,255)**	1,257,152

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, 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, 2014, our net cash generated from operating activities amounted to approximately RMB299.0 million. It mainly included the operating cash inflows before movement in working capital of approximately RMB342.6 million and the decrease of other working capital of approximately RMB22.9 million, but partially offset by income tax paid of approximately RMB66.6 million.

CASH FLOW – *continued*

For the year ended December 31, 2014, our net cash used in investing activities was approximately RMB480.1 million. It was primarily due to: (i) considerations and deposits of RMB445.1 million paid to acquire new cemeteries and funeral facilities, (ii) our additions to and deposits for property and equipments of approximately RMB77.4 million, mainly in connection with the construction of factory and production line set-up for manufacturing cremation machines by our subsidiary, Anhui Zhongfude, and with the cemetery landscaping upgrade in Jinzhou Maoshan Anling, and (iii) an entrusted loan amounting to RMB12.0 million to a third party who is the business partner for a future project with us. It was partially offset by the interests received during the year, amounting to approximately RMB53.6 million, as a result of increased bank balances mainly due to our Global Offering last year.

Our net cash used in financing activities amounted to approximately RMB66.1 million for the year ended December 31, 2014. It was primarily due to: (i) dividends paid to owners of the Company of RMB159.5 million related to pre-IPO profits and of interim dividends of RMB32.1 million for the year ended December 31, 2014, (ii) dividends paid to non-controlling interests of approximately RMB40.8 million, (iii) payment of unsettled Listing related expenses of approximately RMB10.4 million, (iv) our net decrease of bank and other borrowings of approximately RMB4.1 million, and (v) interest paid of approximately RMB4.0 million for our borrowings. The amount was partially offset by the proceeds of approximately RMB184.8 million received from the issuance of 75 million new shares as a result of the exercise of over-allotment option.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2014, we had bank balances and cash of approximately RMB1,296.8 million, primarily due to the net proceeds from our Global Offering of 500 million new Shares in December 2013 and another 75 million new Shares In January 2014. 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 RMB35.0 million as at December 31, 2014, that are wholly repayable within one year. We had bank borrowing facilities of approximately RMB200 million committed but not withdrawn as at December 31, 2014. These borrowings were denominated in Renminbi and were subject to floating interest rates ranged from 6% to 7.2% per annum. Meanwhile, Shandong FSY Development, one of our subsidiaries, had an outstanding loan balance of approximately RMB38.2 million with interest rate of 7.8% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre. Meilin Century Cemetery, a cemetery held by one of our indirect, non wholly-owned subsidiaries, Nanchang Hongfu, had an outstanding loan balance of approximately RMB21.4 million with interest rate of 12% per annum, repayable within one year, from Nanchang Municipal Public Investing & Holding Co., Ltd., the non-controlling shareholder of its direct holding company.

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial year multiplied by 100%. Our gearing ratio as of December 31, 2014 was 4.3%. Our operation has been lightly leveraged because of our good operating cash generating capability. Although we expect that our capital expenditure in year 2015 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 Renminbi. However, certain bank balances are denominated in foreign currencies, which exposes us to foreign currency risk. As at December 31, 2014, cash and cash equivalents held in Renminbi, Hong Kong dollars and US dollars accounted for approximately 87.1%, 10.7% and 2.2% 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.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended December 31, 2014, we completed following two acquisitions:

In early August 2014, we completed to acquire 60% equity interest in Chongqing Baitayuan, a cemetery with 306,212 sq.m. of land offering premium burial and funeral services, by way of initial capital injection of RMB44.69 million and subsequent equity acquisition with a consideration of RMB66 million. It also enables us to gain access to the cremation market as Chongqing Baitayuan has been in collaboration with the local government to construct a cremation facility to carry out cremation activities, which are under the remit of the government and are historically dominated by the state-owned entities.

In early December 2014, we completed the acquisition of 100% equity interest in Meilin Century Cemetery via Nanchang Hongfu, by way of taking all its outstanding liabilities of approximately RMB65 million. Meilin Century Cemetery owns 59,067 sq.m. of land and 6,363 sq.m. of columbarium offering premium burial services.

We also entered following transaction agreements to acquire subsidiaries during the year ended December 31, 2014:

On November 13, 2014, we entered into an agreement to acquire a 70% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery for a cash sum of RMB279.3 million through equity interest subscription. Liaoning Guanlingshan Cultural Landscape Cemetery holds parcels of land for cemetery development and woodland purposes measuring approximately 3,494 mu (approximately 2,329,333 sq.m.) in total. It is one of the market leaders in terms of market shares for the burial services provided in the cities of Shenyang (瀋陽), Tieling (鐵嶺) and Fushun (撫順) in Liaoning Province. The transaction was completed in early January 2015.

On December 18, 2014, we entered into an agreement to acquire all the interests in Shanting Xingtai from its existing shareholders for a cash sum of RMB59.8 million. Shanting Xingtai will mainly provide burial services and occupies approximately 266,664 sq.m. of land. Out of which, Shanting Xingtai has obtained the right to develop a site measuring 64,025 sq.m. from the Civil Affairs Administration Bureau of Shanting District in the city of Zaozhuang (棗莊市山亭區民政局). A further site measuring approximately 202,639 sq.m. is currently in the process of applying for land use right. In view of the anticipated deferral in obtaining the relevant government approvals and permits in the PRC, we entered into a supplemental agreement with the existing shareholders of Shangting Xingtai on February 9, 2015 to amend the remaining consideration condition to the agreement. For further details, please refer to the announcement published by the Company on February 9, 2015. The transaction is expected to be completed by mid 2015.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES – *continued*

On the same day, we entered into another agreement to acquire 75% equity interest in Wanshoushan Linyuan from its existing shareholders for a cash consideration of RMB40 million. Wanshoushan Lingyuan mainly provides burial services, funeral services and cremation services. Wanshoushan Lingyuan holds land use right to a site measuring approximately 164,000 sq.m. in Wuyuan County (婺源縣), Jiangxi province. Wanshoushan Lingyuan is currently the only service provider, granted with a licence for cremation, for funeral services and cemetery operation within the Wuyuan County. The transaction was completed in early February 2015.

On August 28, 2014, we entered into a cooperation agreement with Huaibei Funeral Service Center (淮北市殯葬服務中心) to cooperatively develop Fangshan Cemetery Phase II. Pursuant to which, we will invest RMB30 million on the land of approximately 135,761 sq.m. owned and provided by Huaibei Funeral Service Center to develop the cemetery. We will share the 51% net results from the cooperation.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2014, we had 1,307 full-time employees stationed in 11 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.

CAPITAL COMMITMENT

We had contracted but not provided in the financial statements, for the capital expenditures in respect of acquisition of subsidiaries, land, property and equipment in an amount of approximately RMB111.6 million as at December 31, 2014. We had also authorized RMB30.2 million for the acquisition of parcels of land in Nanchang City, Jiangxi Province, by our Subsidiary there, Nanchang Hongfu.

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

ASSETS PLEDGED

As at December 31, 2014, we pledged buildings with carrying values of approximately RMB6.0 million to secure certain bank borrowings granted to us. Except for that, no other assets were pledged or charged.

CONTINGENT LIABILITIES

As of December 31, 2014, we did not have any contingent liabilities.

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. For the year under review, we expended land of approximately 20,690 sq.m. to generate revenue from sale of burial plots. However, our total saleable area increased by approximately 415,060 sq.m. during the year because of the following reasons: (i) We completed the acquisition of two subsidiaries, Chongqing Baitayuan and Meilin Century Cemetery; (ii) Nanchang Hongfu obtained a parcel of land measuring approximately 133,400 sq.m. and (iii) Huaibei Funeral Service Center agreed to provide us a parcel of land of approximately 135,761 sq.m. to cooperatively develop Fangshan Cemetery Phase II.

The below table sets forth the saleable area in each of our cemetery as at December 31, 2014:

	Saleable Area (sq.m.)
Shanghai Fu Shou Yuan	189,344
Haigang Fu Shou Yuan	52,881
Henan Fu Shou Yuan	214,825
Shandong Fu Shou Yuan	437,651
Hefei Dashushan Cultural Cemetery	41,330
Jinzhou Maoshan Anling	16,606
Chongqing Baitayuan	161,573
Meilin Century Cemetery	36,252
Hongfu Human Culture Memorial Park	108,148
Fangshan Cemetery Phase II	129,114
Total	1,387,724

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. Such estimation may be updated from time to time as our development plan may be improved from time to time. We currently expect the remaining land available at our existing cemeteries to be able to sustain our group's operations for at least 20 years based on our total saleable area of all our cemeteries and the land area of the burial plots taken up in year 2014.

COMPLIANCE

The Group has emphasized with utmost importance on maintaining sound internal control. The independent internal control adviser engaged by us at the beginning of the year together with the professional personnel designated for the internal control centre have conducted a review on the internal control of the branches and subsidiaries of the Group within the past 12 months. The Group has not identified any material internal control issues which need to be rectified. The Group maintained effective internal control in all material aspects. The independent internal control advisor and the function department of internal control are required to make corrective measures in respect of individual incidents identified and were responsible for following up and subsequent audit in order to ensure matters identified were settled through adopting proper actions or measures.

Below is the latest information on the measures adopted by the Group for the period from the date of the 2013 annual report to the date of 2014 Annual Report to prevent future non-compliance as set out in the section headed "Business — Compliance — Measures Adopted to Prevent Future Non-compliance" in the Prospectus:

(i)	Cash management and lending to third parties	The cash pooling system of the Company has started operation, except for 4 joint venture companies and affiliated companies, all subsidiaries of the Group in the PRC have been included in this system. We have also strengthened internal control measures in the companies which have not been included in the cash pooling system in order to ensure that funds will not be used for non-compliance matters. We will continually conduct internal reviews on regular basis in order to monitor the effectiveness of such measures.
(ii)	Owned and leased properties	During the reported period, we have obtained the title certificates for properties of Haigang Fu Shou Yuan as disclosed in the relevant section of the Prospectus. As of the date of this Annual Report, we have not received any request for compulsory demolition of owned properties as set out in the relevant sections of the Prospectus. We still need to continue following on issues of the remaining 4 leased properties which are not material to our operation.
(iii)	Shareholder loan of Shangdong FSY Development	As of the date of this Annual Report, we have not received approval from Shangdong SASAC in connection with the Loan Capitalization Transaction nor any other proposals to repay the loan. We would continue to liaise with the parties concerned to address the issue.

The Group would like to report that as mentioned in its 2014 interim report, it has maintained regular communication with its PRC legal advisor, Hong Kong legal advisor and compliance advisor as to its operations and the compliance with the relevant rules and regulations. We have already appointed an independent internal control consultant to monitor the Group's internal control system.

PROSPECTS

In 2015, in view of the still immature market regulation, the Group will conduct appropriate and highly cost-effective mergers and acquisitions through large-scale investigations and studies and in strict compliance with laws and regulations. After the acquisitions, by leveraging its quality management and operation, Fu Shou Yuan will proceed with cultural packaging and quality enhancement to increase the added value of the graveyards acquired so as to increase the overall level of quality and quantity of products and services, as well as to make overall headway towards standardization and personalization. The next year will be another year for Fu Shou Yuan to implement ambitious plans and expand its operations. The Group will unleash its market integration potential to generate considerable returns for investors. Meanwhile, being a model enterprise, the Group will continue to lead the modernization reform of the death care business in China, promote the healthy development of the national death care culture in terms of humanity, charity and environmental protection and commit itself to operating Fu Shou Yuan, a living entity that carries memories and emotions, in an appropriate way, so as to reward all investors with the best results.

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), age 57, 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 more than 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. In addition, Mr. Bai has been chairman of the board of directors of Hong Kong-Mainland International Investment Society since February 2015.

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 50, 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. Wang Jisheng (王計生), age 61, 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 nearly 18 years of experience in the death care services industry in the PRC and has served the Group for nearly 18 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 as 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 59, 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 20 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 65, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 29 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 deputy 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 Shanghai Zhongfu International Trading Co., Ltd. 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 56, is the non-executive Director. Mr. Huang has been the Chief Financial Officer of Big Earth Publishing, Boulder, Colorado, since 2011 up to 31 October 2014. 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 68, 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 general secretary 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 62, 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 45, is the independent non-executive Director and chairman of the Audit Committee. Mr. Ho is currently managing director of an investment holding company. Prior to that, Mr. Ho served as an executive partner representative of a Chengdu-based private equity investment fund from December 2011 to May 2014. 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 17 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 59, 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 our 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 66, is our deputy general manager. 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 41 years of experience in the funeral service industry and has been in service with our Group for about 20 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 47, is our deputy general manager and is responsible for our public relations and cultural branding development. She has been employed by Shanghai FSY Industry Development since 1996 and has been its deputy general manager since 2006. Ms. Yi has nearly 19 years of experience in the funeral service industry in the PRC and has been in service with our Group for nearly 19 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 17 years of service. 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. Wu Yibo (鄔亦波), age 44, is our deputy general manager and is responsible for 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 11 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. Zhao Yu (趙宇), age 38, is the deputy general manager and is responsible for the Listing matters and Board secretary affairs, and was appointed as the joint company secretary of the Company on December 3, 2013. Mr. Zhao joined the Group in 2009. Mr. Zhao was a deputy general manager of the Group and was responsible for investor relations, corporate finance and corporate governance of the Group. Mr. Zhao has more than 12 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. Xu Yong (徐勇), age 56, 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 eight years of experience in the funeral service industry in the PRC and has been working for our Group for almost four years. Mr. Xu has over 31 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. Li Heguo (李和國), age 49, is our deputy general manager and is responsible for strategic development, planning execution and major projects and acquisitions of the Group. Mr. Li joined the Group in 2013 and has over 8 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.

Ms. Wangqiong (**王瓊**), aged 50, is our deputy general manager and is responsible for research and development of funeral services products and funeral services brand promotion. She established Hefei Dashushan Wenhualingyuan (合肥大蜀山文化陵園) in 2002 and has been an director and the general manager of Hefei Dashushan Wenhualingyuan Company Limited (合肥大蜀山文化陵園有限公司). She established Hefei Renben Funeral Service Company Limited (合肥人本禮儀服務有限公司) in 2008 and Hefei Huazhijian Flowers Company Limited (合肥花之間花卉有限公司) in 2010, and established Anhui Life Culture Research Centre (安徽省生命文化研究中心) in 2010,through which she developed the "4-in-1" business mode, namely "Funeral (殯), Burial (葬), Flowers (花), Research (研)" and created the first brand in funeral services industry in Anhui. She has been the deputy general manager of Fu Shou Yuan International Group since 2015. Ms. Wang has more than 12 years of experience in the PRC funeral services industry and has been in service with the Group for nearly 12 years. Prior to joining the Group, she worked in finance and credit at Hefei Agricultural Bank (合肥市農業銀行) in 1987. Ms. Wang served as person-in-charge of Anhui Anhe International Trust Investment Co., Ltd (安徽安合國際信託投資有限公司) in 1992, person-in-charge of Anhui Anhe Investment Consulting Co., Ltd (安徽安合投資諮詢有限公司) in 1998 and China Region capital director of Pacific Millennium Holdings Corporation in 2001. Mr. Wang is also a member of The Chinese People's Political Consultative Conference, Hefei 12th Committee, a standing member of The Chinese People's Political Consultative Conference, Hefei 13th Committee, an executive member of China Funeral Association, vice chairman of Anhui Funeral Association (安徽省殯葬協會) and chairman of Anhui Life Culture Research Centre (安徽省生命文化研究中心). Ms. Wang studied at Anhui City Management College majoring in Chinese from 1983 to 1987, further studied at City university of San Francisco, USA majoring in finance in 1996, completed the ICCFA Cemetery Training courses at International Funeral University (美國國際殯葬大學) in 2007 and completed the EMBA Core Course CEO Programme organized by Shanghai Jiao Tong University from 2013 to 2014.

Mr. Luk Wai Keung (**陸偉強**), age 50, is the Group's chief financial officer. Mr. Luk joined the Group in 2013. 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 16 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.

DIRECTORS' REPORT

The Board presents the directors' report together with the audited consolidated financial statements of the Group for the year ended December 31, 2014.

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, 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2010 and 2014 is set out on page 136 in the section "Financial Summary" of this Annual Report.

FINAL DIVIDEND

The Board recommend the payment of a final dividend of HK1.95 cents per Share for the year ended December 31, 2014 (2013: Nil), which is subject to the approval by the Shareholders at the AGM.

CLOSURES OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, May 12, 2015 to Thursday, May 14, 2015, both days inclusive. During the above period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, May 11, 2015.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Thursday, May 21, 2015 to Friday, May 22, 2015, both days inclusive. During the above period, no transfer of Share will be registered. In order to qualify for the entitlement to the proposed final dividend, subject to the approval of the Shareholders at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, May 20, 2015.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 40 to the audited consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2014, purchases from the Group's five largest suppliers accounted for 54.5% (2013: 73.29%) of the Group's total purchases and purchases from our single largest supplier accounted for 17.1% (2013: 22.7%) of the Group's total purchases.

During the year ended December 31, 2014, the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group.

None of the Directors or any of their close 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 interests 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, 2014 are set out in note 16 to the audited consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended December 31, 2014 are set out in note 31 to the audited consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2014 are respectively set out in notes 32 and 42 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, 2014, are set out in note 42 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 29 to the audited consolidated financial statements.

TAXATION

If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, 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 purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2014.

PRE-EMPTIVE RIGHTS

There is no provision 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 Shareholders.

CHARITABLE DONATIONS

During the year ended December 31, 2014, the Group made approximately RMB1.5 million charitable and other donations.

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. As of December 31, 2014, we had used approximately HK$45.6 million to acquire new lands, approximately HK$557.6 million, including certain funds from our daily operation, for mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK$14.0 million to expand our sales network. The remaining of the net proceeds are intended to be applied in the manner consistent with that set out in the Prospectus.

DIRECTORS

The Directors during the year ended December 31, 2014 and up to the date of this Annual Report are:

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 in the section "Profiles of Directors and Senior Management" of this Annual Report.

In accordance with Article 108 of the Articles of Association, Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei shall retire by rotation at the AGM 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 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, 2014 or at any time during the year ended December 31, 2014.

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 year ended December 31, 2014. 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 contract 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, 2014.

REMUNERATION OF DIRECTORS

In compliance with the CG Code, the Company has established the 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. No Director, or any of their respective associates, was involved in deciding his/her own remuneration.

Details of the remuneration of the Directors and the five highest paid individuals during the year ended December 31, 2014 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 directors or employees, or any advisors, consultants, suppliers, customers or shareholders of any members 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, representing 9.64% of the issued share capital of the Company as at the date of this annual report. 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, 2014, 42,000,000 options were granted by the Company under the Share Option Scheme.

As at the date of this Annual Report, the total number of Shares in respect of which options are available for issue under the Share Option Scheme was 158,000,000 Shares representing 7.61% of the issued share capital of the Company.

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme during the year ended December 31, 2014:

Name of Grantees	Date of grant	Exercise price per Share (HK$)	Closing price per Share immediately before the date of grant (HK$)	Options granted on August 5, 2014	Options balance outstanding as at January 1, 2014	Options exercised during the year ended December 31, 2014	Options lapsed/ cancelled during the year ended December 31, 2014	Options outstanding as at December 31, 2014	Exercisable period
Directors									
Bai Xiaojiang	August 5, 2014	4.14	4.01	1,000,000	–	–	–	1,000,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	1,000,000	–	–	–	1,000,000	August 5, 2017 to August 4, 2024
Tan Leon Li-an	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2017 to August 4, 2024
Wang Jisheng	August 5, 2014	4.14	4.01	1,000,000	–	–	–	1,000,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	1,000,000	–	–	–	1,000,000	August 5, 2017 to August 4, 2024
Lin Hung Ming (also known	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2016 to August 4, 2024
as Lin Hon Min)	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2017 to August 4, 2024
Lu Hesheng	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2017 to August 4, 2024
Huang James Chih-Cheng	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2017 to August 4, 2024
Chen Qunlin	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2017 to August 4, 2024
Luo Zhuping	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2017 to August 4, 2024
Ho Man	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2017 to August 4, 2024
Wu Jianwei	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2016 to August 4, 2024
	August 5, 2014	4.14	4.01	100,000	–	–	–	100,000	August 5, 2017 to August 4, 2024
Chief Financial Officer									
Luk Wai Keung	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2016 to August 4, 2018
	August 5, 2014	4.14	4.01	200,000	–	–	–	200,000	August 5, 2017 to August 4, 2018
Other employees of the Group	August 5, 2014	4.14	4.01	17,600,000	–	–	–	17,600,000	August 5, 2016 to August 4, 2018
(in aggregate)	August 5, 2014	4.14	4.01	17,600,000	–	–	–	17,600,000	August 5, 2017 to August 4, 2018
Total				42,000,000	–	–	–	42,000,000	

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended December 31, 2014.

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:

Name of Grantees	Date of grant	Exercise price per Share (RMB)	Options balance outstanding as at January 1, 2014	Options granted during the year ended December 31, 2014	Options exercised during the year ended December 31, 2014	Options lapsed/ cancelled during the year ended December 31, 2014	Options outstanding as at December 31, 2014	Exercisable period
Directors								
Bai Xiaojiang	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2016 to August 7, 2017
Wang Jisheng	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,726,726	—	—	—	1,726,726	August 8, 2016 to August 7, 2017
Substantial Shareholders								
Ge Qiansong (Senior Management)	August 8, 2013	0.9	1,438,938.5	—	—	—	1,438,938.5	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	1,438,938.5	—	—	—	1,438,938.5	August 8, 2016 to August 7, 2017
Other employees (in aggregate)	August 8, 2013	0.9	23,914,194	—	—	—	23,914,194	August 8, 2015 to August 7, 2017
	August 8, 2013	0.9	23,914,194	—	—	—	23,914,194	August 8, 2016 to August 7, 2017
Total			**57,613,169**	**—**	**—**	**—**	**57,613,169**	

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme during the year ended December 31, 2014.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at December 31, 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interest in the Shares

Name of Directors	Capacity	Nature of Interests	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Bai Xiaojiang	Interest in a controlled corporation (Note 1)	Long Position	96,600,000	4.66
Wang Jisheng	Interest in a controlled corporation (Note 2)	Long Position	96,600,000	4.66
Lu Hesheng	Interest in a controlled corporation (Note 3)	Long Position	27,600,000	1.33

Notes:

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

2. Mr. 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. Mr. 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 have been granted options under the Share Option Scheme and the Pre-IPO Share Option Scheme, details of which are set out in "Share Option Scheme" and "Pre-IPO Share Option Scheme" above.

Save as disclosed above, as at December 31, 2014, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2014, so far as the Directors or the chief executive of the Company were aware, the Substantial Shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
FSG Holding	Beneficial owner	Long position	525,000,000	25.30
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	525,000,000	25.30
Chief Union	Beneficial owner (Note 2)	Long position	483,000,000	23.28
Fulechuan	Interest in a controlled corporation (Note 3)	Long position	483,000,000	23.28
Zhongfu	Interest in a controlled corporation (Note 4)	Long position	483,000,000	23.28
Hongfu	Interest in a controlled corporation (Note 5)	Long position	483,000,000	23.28
NGO 1	Interest in a controlled corporation (Note 6)	Long position	483,000,000	23.28
NGO 2	Interest in a controlled corporation (Note 6)	Long position	483,000,000	23.28
Double Riches	Beneficial owner	Long position	119,445,000	5.76
Ge Qiansong	Interest in a controlled corporation (Note 7)	Long position	119,445,000	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 is 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 is 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 is 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 is 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 is 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 is 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, 2014, so far was known to the Directors, no other persons (other than the Directors or chief executives of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended December 31, 2014 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or any of its holding companies or any of subsidiaries of its holding companies a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 37 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 year ended December 31, 2014.

CONNECTED TRANSACTION

Shandong World Trade Centre and Shandong FSY Development entered into a loan agreement on January 1, 2013 and renewed on January 1, 2014, pursuant to which Shandong World Trade Centre provided a shareholder loan to Shandong FSY Development. As at December 31, 2014, the loan remaining outstanding amounted to approximately RMB38,173,000. The interest rate is approximately 7.8% per annum.

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. We would continue to liaise with parties concerned to address the issue.

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.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2014.

AUDITOR

The financial statements of the Group for the year ended December 31, 2014 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of auditor.

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

Hong Kong, March 18, 2015

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2014.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of corporate transparency and accountability. The Company is committed to 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 Company has adopted the CG Code as its own code of corporate governance.

The Board is of opinion that the Company has complied with the code provisions as set out in the CG Code throughout the year ended December 31, 2014.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' dealings in securities of the Company. The Company has made specific enquiry to all the Directors, each of them confirmed that they have complied with the required standards of dealing as set out in the Model Code throughout the year ended December 31, 2014.

To comply with the code provision A.6.4 of the CG Code, the Company has also established and adopted a code of conduct regarding its employees' securities transactions, on terms no less exacting than the standards set out in the Model Code, for compliance by its relevant employees who are likely to be 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 Model Code by the Directors and the relevant employees of the Company were noted by the Company throughout the year ended December 31, 2014.

THE BOARD OF DIRECTORS

Board composition

The Board currently comprises three executive Directors, three non-executive Directors and four independent non-executive Directors. The composition of the Board is set out as follows:

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 are set out in the section of "Profiles of Directors and Senior Management" of this Annual Report.

Throughout the year ended December 31, 2014, 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 of the directors.

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

Board Meetings, Board Committees Meetings and Annual General Meeting

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.

The Board should meet regularly and Board meetings should be held at least four times a year. At least 14 days' notice of all regular Board meetings is given to the Directors who are given the opportunity to include other matters in the agenda of meetings.

During the year ended December 31, 2014. The Board held 7 meetings.

The attendance records of the individual Directors at the Board, Audit Committee, Nomination Committee, Remuneration Committee, Compliance Committee and annual general meeting during the year ended December 31, 2014 are set out as follows:

	Number of Meetings Attended/Held					
Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Compliance Committee Meetings	Annual General Meeting
Executive Directors						
Mr. Bai Xiaojiang	7/7	—	2/2	—	—	1/1
Mr. Tan Leon Li-an	5/7	—	—	1/2	—	1/1
Mr. Wang Jisheng(Note 1)	7/7	—	1/1	—	—	1/1
Non-executive Directors						
Mr. Lin Hung Ming (also known as Lin Hon Min)	6/7	—	—	—	—	1/1
Mr. Lu Hesheng	6/7	—	—	—	—	1/1
Mr. Huang James Chih-Cheng	7/7	3/3	—	—	—	0/1
Independent non-executive Directors						
Mr. Chen Qunlin	2/7	—	2/2	2/2	1/2	0/1
Mr. Luo Zhuping	7/7	3/3	2/2	2/2	2/2	1/1
Mr. Ho Man(Note 2)	7/7	3/3	0/1	—	2/2	1/1
Ms. Wu Jianwei	7/7	—	—	—	2/2	1/1

Notes:

1. Mr. Wang Jisheng was appointed as a member of the Nomination Committee with effect from November 24, 2014; and

2. Mr. Ho Man was appointed as a member of the Nomination Committee with effect from November 24, 2014.

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 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 Articles of Association provides that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting, or as an additional to the existing Board shall hold office only until the following annual general meeting of the Company and shall then be eligible for re-election at such meeting.

In accordance with the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being or, if the number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, 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 may, at any general meetings convened and held in accordance with the Articles of Association, remove a Director by ordinary resolution at any time before the expiration of his term of office notwithstanding anything to the contrary in the 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 the Company's external auditor on the financial statements of the Group are set out in the section of "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, overseeing the Group's strategic decisions and monitoring 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 has 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 to the Company in accordance with the terms of such 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 seminars and provision of training materials. All Directors have provided their training records to the Company.

During the year ended December 31, 2014, all Directors 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

The positions of the Chairman and the General Manager are held separately. The role of Chairman is held by Mr. Bai Xiaojiang, and the General Manager is 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 contribution 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 CG Code and disclosure in the corporate governance report under the Listing Rules.

The Compliance Committee is delegated to discharge the above corporate governance functions and has reported back to the Board.

The Compliance Committee has reviewed the Company's policies and practices on corporate governance and this corporate governance report.

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 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 has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code. The primary duties of the Audit Committee are, but not limited to, 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 three members, namely Mr. Ho Man and Mr. Luo Zhuping, the independent non-executive Directors, and Mr. Huang James Chih-Cheng, the non-executive Director. Mr. Ho Man is the chairman of the Audit Committee.

During the year ended December 31, 2014, the Audit Committee held 3 meetings. It had reviewed and discussed the interim and annual financial statements, the interim and annual result announcements and reports, the accounting principles and practices adopted by the Group and the effectiveness of the internal control of the Group and recommended the re-appointment of auditor to the Board.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with paragraph B1 of the CG Code. The primary duties of the Remuneration Committee are, but not limited to, to evaluate and make recommendations to the Board regarding the remuneration packages and compensation of the executive Directors and senior management. In addition, the Remuneration Committee conducts reviews of the performance, and determines the remuneration structure of the senior management of the Company.

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

During the year ended December 31, 2014, the Remuneration Committee held 2 meetings. It had reviewed the share options granted to the eligible participants on August 5, 2014, the Company's remuneration policy and structure and the remuneration package for Directors and senior management.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with paragraph A.5 of the CG Code. The primary functions of the Nomination Committee are, but not limited to, 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 five members, namely Mr. Bai Xiaojiang, the chairman and executive Director, Mr. Wang Jisheng, the executive Director, Mr. Luo Zhuping, Mr. Chen Qunlin and Mr. Ho Man, the independent non-executive Directors. Mr. Bai Xiaojiang is the chairman of the Nomination Committee.

During the year ended December 31, 2014, the Nomination Committee held 2 meetings. It had reviewed the re-appointment of directors, the structure, size and composition of the Board, the board diversity policy, and the retirement and rotation plan of the Directors and assessed the independence of each independent non-executive Director.

Compliance Committee

The Company has established the Compliance Committee with written terms of reference. The primary functions of the Compliance Committee are, but not limited to, 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 four members, namely Ms. Wu Jianwei, Mr. Chen Qunlin, Mr. Luo Zhuping and Mr. Ho Man, all being the independent non-executive Directors. Ms. Wu Jianwei is the chairman of the Compliance Committee.

During the year ended December 31, 2014, the Compliance Committee held 2 meetings. It had reviewed the policies and practices on corporate governance and made recommendation to the Board, reviewed the training and continuous professional development of Directors and senior management, the policies and practices on compliance with legal and regulatory requirements, the codes of conduct applicable to employees and Directors and the compliance with the corporate governance code and disclosure in the corporate governance report.

BOARD DIVERSITY

With a view to enhancing the 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 has adopted the Board Diversity Policy with measurable objectives. 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 gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of services and other qualities essential to the Company's business, and merit and contribution that the selected candidates will bring to the Board. The Nomination Committee and 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, 2014 is set out below:

Remuneration bands	**Number of individual**
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	2
HK$2,000,001 to HK$2,500,000	4
HK$3,000,001 to HK$3,500,000	1
HK$3,500,001 to HK$4,000,000	1

EXTERNAL AUDITOR'S REMUNERATION

During the year ended December 31, 2014, the remunerations paid or payable to the external auditor of the Company in respect of audit and non-audit services provided to the Group are set out as below:

	Fees payable or paid	
Services rendered for the Group	**2014** **RMB'000**	2013 RMB'000
Audit Services	**2,800**	2,800
Interim Results Review	**700**	—
Total Fees	**3,500**	2,800

The Audit Committee was satisfied that the non-audit services in 2014 did not affect the independence of the auditor.

INTERNAL CONTROL

The Board is responsible for maintaining an effective internal control system to safeguard the Group's assets and shareholders' interests, and regularly conducts review and on-going monitoring on the risk management and internal control system to ensure the effectiveness of the implementation of the internal control system.

The Group has established its internal control system focused on risk management, including company management policies and systems in written form, clearly defined organizational structure and responsibilities authorization system, stable and reliable financial management data and reports, and stringent risk management and appraisal system on the supervision over internal control.

The Group continuously improves and regulates its internal control management policies and systems by strictly complying with national laws and regulations and the regulatory requirements under the Stock Exchange. Through objective identification, analysis and evaluation of the enterprise's risk events as well as in-depth analysis of the main aspects of internal control, the Group has established its internal control management system covering major businesses and risk maters regarding to its operation and management with limited management resources to focus on core issues.

The Group has adopted three-level risk management and internal control authorization structural system: the Board, senior management and Group headquarters management center as well as all branches and subsidiaries. The Board is the supreme decision-making body for the Company's risk management and internal control; the senior management and Group headquarters management center achieves effective identification and control of the risks related to all material maters; and all branches and subsidiaries implement direct risk management and internal control function for their respective operations.

During the year ended December 31, 2014, the Group engaged an independent internal control consultant to work with its internal audit department to regularly review the effectiveness and efficiency of the implementation of its internal control system, which covered all material financial, operational and compliance risk management and control. The independent internal control consultant and the internal audit department reported directly to the audit committee under the Board and the Chairman of the Board of the Group on a regular basis.

The Board considers that the Group was able to maintain established and effective risk management and internal control system as of December 31, 2014.

JOINT COMPANY SECRETARIES

The joint company secretaries of the Company are Mr. Zhao Yu ("**Mr. Zhao**") and Ms. Wong Wai Ling ("**Ms. Wong**"). 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.

Each of Mr. Zhao and Ms. Wong has taken no less than 15 hours of the relevant professional training on review of Listing Rules and other compliance requirements during the year ended December 31, 2014.

SHAREHOLDERS' RIGHTS

The Company encourages the Shareholders to attend the general meetings of the Company. 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.

The Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM") and for Putting Forward Proposals at General Meeting

Pursuant to Article 64 of Articles of Association, extraordinary general meeting of the Company shall be convened on the requisition of one or more shareholders of the Company holding, 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 Company 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 Branch Share Registrar and upon its 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 for the Shareholders to propose a person for election as a director is posted on the website of the Company.

Investor Relations and Communications with Shareholders

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 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.

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

Computershare Hong Kong Investor Services Limited
Shop 1712-1716
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 year ended December 31, 2014, there has been no change in the Company's constitutional documents.

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 57 to 135, which comprise the consolidated statement of financial position as at December 31, 2014, 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.

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, 2014 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 18, 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
Revenue	8	**795,092**	611,811
Cost of sales and services		**(159,259)**	(120,152)
Gross profit		**635,833**	491,659
Other income and gains, net	9	**58,128**	29,432
Distribution and selling expenses		**(149,394)**	(105,982)
Administrative expenses		**(199,680)**	(122,951)
Finance costs	10	**(3,679)**	(5,281)
Other expenses		**—**	(26,501)
Profit before taxation	11	**341,208**	260,376
Income tax expense	13	**(56,149)**	(70,296)
Profit and total comprehensive income for the year		**285,059**	190,080
Profit and total comprehensive income attributable to:			
Owners of the Company		**230,372**	167,255
Non-controlling interests		**54,687**	22,825
		285,059	190,080
		RMB cents	RMB cents
Earnings per share – Basic	15	**11**	11
– Diluted	15	**11**	11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2014

	NOTES	2014	2013
		RMB'000	RMB'000
Non-current assets			
Property and equipment	16	**271,304**	187,667
Intangible assets	17	**13,709**	13,474
Prepaid lease payment	18	**13,174**	—
Cemetery assets	19	**628,648**	440,531
Restricted deposits	20	**23,730**	19,506
Investment in a joint venture	22	**30,000**	—
Deposit for acquisition of subsidiaries	23	**293,800**	—
Deferred tax assets	21	**33,723**	31,093
Goodwill	24	**94,459**	28,102
		1,402,547	720,373
Current assets			
Inventories	25	**215,733**	182,680
Other receivables	26	**20,083**	21,086
Bank balances and cash	27	**1,296,757**	1,544,012
		1,532,573	1,747,778
Current liabilities			
Trade and other payables	28	**258,437**	171,321
Deferred income	30	**13,097**	11,629
Dividends payable	14	**—**	159,500
Loan from non-controlling interests	39	**21,396**	—
Income tax liabilities		**122,846**	130,628
Borrowings	29	**34,950**	39,050
		450,726	512,128
Net current assets		**1,081,847**	1,235,650
Total assets less current liabilities		**2,484,394**	1,956,023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Deferred income	30	**166,545**	142,967
Loans from non-controlling interests	39	**38,173**	38,173
Deferred tax liabilities	21	**67,364**	29,946
		272,082	211,086
Net assets		**2,212,312**	1,744,937
Capital and reserves			
Share capital	31	**125,689**	121,158
Reserves	32	**1,857,584**	1,458,960
Equity attributable to owners of the Company		**1,983,273**	1,580,118
Non-controlling interests		**229,039**	164,819
Total equity		**2,212,312**	1,744,937

The consolidated financial statements on page 57 to 135 were approved and authorized for issue by the Board of Directors on March 18, 2015 and are signed on its behalf by:

Bai Xiao Jiang	**Wang Ji Sheng**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note 32)	Statutory surplus reserve RMB'000 (note 32)	Other reserve RMB'000 (note 32)	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, 2013	–	–	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	–	–	–	–	–	–	–	–	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
Profit and total comprehensive income for the year	–	–	–	–	–	–	230,372	230,372	54,687	285,059
Acquisition of a subsidiary (note 34(a))	–	–	–	–	–	–	–	–	50,286	50,286
Dividends recognized as distributions (note 14)	–	(32,143)	–	–	–	–	–	(32,143)	–	(32,143)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(40,753)	(40,753)
Issue of shares at premium through exercise of over-allotment option	4,531	180,226	–	–	–	–	–	184,757	–	184,757
Transfer to statutory reserve	–	–	–	10,822	–	–	(10,822)	–	–	–
Share based compensation (note33)	–	–	–	–	–	20,169	–	20,169	–	20,169
At December 31, 2014	**125,689**	**1,243,174**	**84,667**	**75,487**	**26,784**	**26,745**	**400,727**	**1,983,273**	**229,039**	**2,212,312**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**341,208**	260,376
Adjustments for:		
Finance costs	**3,679**	5,281
Interest income	**(54,491)**	(6,294)
Depreciation of property and equipment	**18,813**	16,335
Amortization of cemetery assets	**13,191**	10,902
Amortization of intangible assets and prepaid lease payment	**411**	431
Net gain on disposal of property and equipment	**(387)**	(590)
Gain on deemed disposal of an associate	**—**	(16,428)
Expense recognized in respect of equity-settled share based payments	**20,169**	6,576
Operating cash flows before movements in working capital	**342,593**	276,589
Increase in restricted deposits	**(4,224)**	(1,347)
Increase in cemetery assets and inventories	**(26,936)**	(72,954)
Decrease (increase) in other receivables	**14,533**	(9,509)
Increase in trade and other payables	**24,745**	4,415
Increase in deferred income	**14,827**	18,732
Cash generated from operations	**365,538**	215,926
Income taxes paid	**(66,586)**	(54,245)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**298,952**	161,681
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	**(77,354)**	(74,527)
Payment to related parties	**—**	(240)
Purchase of intangible assets	**(422)**	(1,364)
Proceeds on disposal of property and equipment	**1,173**	6,817
Advance to independent third parties	**(12,000)**	(35,727)
Repayment from independent third parties	**—**	45,817
Acquisition of subsidiaries (note 34)	**(121,299)**	38,788
Investment in a joint venture	**(30,000)**	—
Repayment from non-controlling interests	**—**	6,893
Interest received	**53,594**	8,401
Deposit for acquisition of subsidiaries	**(293,800)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(480,108)**	(5,142)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 RMB'000	2013 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**44,950**	25,000
Repayment of bank borrowings	**(49,050)**	(33,600)
Repayment of other borrowings	—	(7,000)
Advance from related parties	—	30,429
Repayment to related parties	—	(37,690)
Loans from non-controlling interests	—	3,638
Repayments to non-controlling interests	—	(10,900)
Acquisition of additional interest in existing subsidiaries	—	(24,193)
Interest paid	**(4,002)**	(10,300)
Capital contributions from non-controlling interests	—	1,324
Dividends paid to non-controlling interests	**(40,753)**	(19,902)
Dividends paid to owners of the Company	**(32,143)**	—
Dividends paid to the then owners prior to the Reorganization	**(159,500)**	(32,442)
Proceeds from issue of ordinary shares	**184,757**	1,300,865
Payment of listing related expenses	**(10,358)**	(84,616)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(66,099)**	1,100,613
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(247,255)**	1,257,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,544,012**	286,860
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,296,757**	1,544,012

1. GENERAL

Fu Shou Yuan International Group Limited (the "Company") is a 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 40.

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").

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.

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

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

In the current year, the Group has applied the following amendments to IFRSs and an interpretation issued by the International Accounting Standards Board ("IASB").

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – *continued*

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. 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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – *continued*

IFRIC – Int 21 Levies

The Group has applied IFRIC – Int 21 Levies for the first time in the current year. IFRIC – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in 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 amendments to IFRSs that have been issued but not yet effective:

IFRSs	
IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – *continued*

New and revised IFRSs issued but not yet effective – *continued*

The Directors anticipate that the application of the above new and revised IFRSs will have no material impact on the consolidated financial statement except for the application of IFRS 15 which may have impact on the disclosure as described below.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may have an impact on disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS.

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 which for the current year, continue to be those of the predecessor Company Ordinance (Caop.32), in accordance with transitional saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 of the Ordinance.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in joint ventures – *continued*

The requirements of IAS 39 are applied to determine whether it is necessary to recognise anyimpairment loss with respect to the Group's investment in a joint venture. 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 recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities.Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

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:

i. the Group has transferred to the buyer the significant risks and rewards of ownership of the burial plots;

ii. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the burial plots sold;

iii. the amount of revenue can be measured reliably;

iv. it is probable that the economic benefits associated with the transaction will flow to the Group; and

v. 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 estimates the fair value of the cemetery maintenance services income to be deferred based on the expected cost of providing such cemetery maintenance services plus a reasonable margin, less total future maintenance fees to be received.

Funeral and auxiliary services income are 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.

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.

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, 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. 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 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, 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:

i. significant financial difficulty of the issuer or counterparty; or

ii. breach of contract, such as default or delinquency in interest and principal payments; or

iii. it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

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, dividend payables, loans from non-controlling interests and borrowings are subsequently measured at amortized cost, using the effective interest method.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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:

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, 2014, the carrying amounts of goodwill are approximately RMB94,459,000 (2013: RMB28,102,000). Details of recoverable amount calculation are disclosed in note 24.

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, 2014, the carrying amounts of property and equipment are approximately RMB271,304,000 (2013: RMB187,667,000). No impairment indicators on property and equipment were identified during the year ended December 31, 2014 and 2013. Details of movement are disclosed in note 16.

As at December 31, 2014, the carrying amounts of intangible assets are approximately RMB 13,709,000 (2013: RMB13,474,000). No impairment was recorded for the intangible assets during the year ended December 31, 2014 and 2013. 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, 2014, the carrying amounts of deferred income are approximately RMB 179,642,000 (2013: RMB154,596,000), as disclosed in note 30.

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, 2014 and 2013.

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, 2014.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 29, 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:

	2014 RMB'000	2013 RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,335,862**	1,564,679
Financial liabilities		
Amortized cost	**217,805**	314,361

b. Financial risk management objectives and policies

The Group's major financial instruments include restricted deposits, bank balances and cash, other receivables,trade and other payables, dividends payable, loans from non-controlling interests, 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 other payables 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, 2014 and 2013 are as follows:

	2014 RMB'000	2013 RMB'000
Assets		
United States Dollars ("US$")	**28,879**	43,567
Hong Kong Dollars ("HK$")	**138,474**	293,593
Liabilities		
HK$	**193**	—

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.

	2014	2013
	RMB'000	RMB'000
If RMB strengthens against US$	**(1,083)**	(1,634)
If RMB strengthens against HK$	**(5,186)**	(11,010)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank, other borrowings and loan from non-controlling interests (see note 29 and 39).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, restricted deposits and borrowings (see notes 27, 20 and 29).

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 50-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.

7. FINANCIAL INSTRUMENTS – *continued*

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

Interest rate risk – continued

If the deposit 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, 2014 would have been increased/decreased by approximately RMB4,952,000 (2013: RMB5,829,000).

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, 2014 would have been decreased/increased by approximately RMB131,000 (2013: RMB146,400).

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 good credit ratings and quality.

The Group has concentration of credit risk in respect of bank balances. At December 31, 2014, approximately 58% (2013: 73%) of the bank balances were deposited at 1 bank (2013: 2 banks).

Other than concentration of credit risk on liquid funds which are deposited with several banks with good 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, 2014 and 2013.

At December 31,2014, the Company recorded an entrusted loan amounting to RMB 12,000,000 to a third party who is the business partner of the Company for a future project. The entrusted loan should be paid back within 12 months. The Group's management has assessed the financial position of the counterparty and believed that the receivable are fully recoverable .

For the deposit paid for acquisition of subsidiaries, the Group's management has assessed the financial position of the counterparties so as to fulfill the acqusition as planned.

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.

7. FINANCIAL INSTRUMENTS – *continued*

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

Liquidity risk – continued

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.

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, 2014 and 2013.

	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, 2014					
Trade and other payables	—	123,286	—	123,286	123,286
Loans from non-controlling interests					
– interest-bearing	7.20	—	40,921	40,921	38,173
– interest-bearing	12.00	23,964	—	23,964	21,396
Borrowings					
– variable rate	6.13	35,214	—	35,214	34,950
		182,464	40,921	223,385	217,805

	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

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.
- Auxiliary services - provision of landscape and garden design service

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	Auxiliary services RMB'000	Total RMB'000
For the year ended December 31, 2014						
Segment revenue	660,526	13,045	673,571	109,836	11,685	795,092
Segment profit	549,557	4,052	553,609	79,808	2,416	635,833
Other income and gains, net						58,128
Distribution and selling expenses						(149,394)
Administrative expenses						(199,680)
Finance costs						(3,679)
Profit before taxation						341,208

* The operation of auxiliary services commenced in the beginning of 2014 and is currently provided via a subsidiary engaging in landscape and garden design services in Shanghai. This segment will also include sale of cremation machines in the future.

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	Auxiliary 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

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, and other expenses. 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, 2014 and 2013. 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, cemetery maintenance services and auxiliary service 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, 2014 and 2013.

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:

	2014	2013
	RMB'000	RMB'000
Burial Services		
Sale of burial plots		
Customized burial (note (a))	**187,674**	162,473
Artistic burial (note (b))	**244,616**	169,524
Traditional burial	**120,730**	83,947
Lawn burial (note (c))	**41,085**	42,760
Green burial (note (d))	**6,095**	5,686
Indoor burial	**8,772**	7,996
Other burial-related services (note (e))	**51,554**	41,279
Cemetery maintenance services	**13,045**	10,147
	673,571	523,812
Funeral services	**109,836**	87,999
Auxiliary services	**11,685**	—
	795,092	611,811

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 of the tombstone, the trading of flower and additional engraving fees.

8. SEGMENT INFORMATION – *continued*

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"), 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 exempt from business tax.

9. OTHER INCOME AND GAINS, NET

	2014 **RMB'000**	2013 RMB'000
Other income:		
Interest income on bank deposits	**54,491**	6,294
Government grants (note(a))	**—**	5,431
	54,491	11,725
Net gains and losses:		
Net gain on disposal of property and equipment	**387**	590
Donation	**(1,525)**	(500)
Gain on deemed disposal of associates	**—**	16,428
Compensation(note(b))	**—**	3,952
Exchange gain (losses)	**4,433**	(2,256)
Others	**342**	(507)
	3,637	17,707
Other income and gains, net	**58,128**	29,432

Note:

(a) The government grants represented 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

	2014 RMB'000	2013 RMB'000
Interest expense on borrowings wholly repayable within five years	**2,867**	3,670
Interest expense on loans from non-controlling interests wholly repayable within five years (note 39)	**3,200**	4,068
Interest expense on borrowing from independent third parties wholly repayable within five years	**12**	543
Less: Capitalized interest	**(2,400)**	(3,000)
Total finance costs	**3,679**	5,281

The capitalized borrowing costs are calculated by applying the borrowing rate of 6.0% (2013: 6.56%) per annum to expenditure on qualifying assets.

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2014 RMB'000	2013 RMB'000
Staff costs, including Directors' remuneration (note 12):		
Salaries, wages, bonus and other benefits	**156,449**	99,382
Retirement benefits scheme contributions (note 37):	**9,219**	9,003
Share based payments expenses	**20,169**	6,576
Total staff costs	**185,837**	114,961
Auditors' remuneration	**3,500**	2,800
Depreciation of property and equipment	**18,813**	16,335
Cost of inventories recognized as an expense	**83,994**	62,590
Amortization of intangible assets and prepaid lease payment (included in administrative expenses)	**411**	431
Amortization of cemetery assets (included in cost of sales and services)	**13,191**	10,902
Listing expenses (included in other expenses)	**—**	26,501
Operating lease rentals	**9,017**	6,832

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2014 RMB'000	2013 RMB'000
Directors' fees	9,060	1,360
Other emoluments		
Discretionary bonus	600	1,710
Contributions to retirement benefits scheme	152	156
Share based payments expenses	2,546	808
	12,358	4,034

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

For the year ended December 31, 2014

	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	3,600	300	76	1,147	5,123
Wang Jisheng (Chief Executive)	3,600	300	76	1,147	5,123
Tan Leon Li-an	240	—	—	42	282
Non-Executive Directors					
Huang James Chih-Cheng	240	—	—	42	282
Lin Hung Ming	240	—	—	42	282
Lu Hesheng	240	—	—	42	282
Independent Non-Executive Directors					
Chen Qunlin	180	—	—	21	201
Luo Zhuping	240	—	—	21	261
Ho Man	240	—	—	21	261
Wu Jianwei	240	—	—	21	261
	9,060	600	152	2,546	12,358

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

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
Wang Jisheng (Chief Executive)	600	855	78	404	1,937
Tan Leon Li-an	20	—	—	—	20
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.

The five highest paid individuals of the Group included two directors (2013: two) for the year ended December 31, 2014. The remunerations of the remaining three (2013: three) individuals during the year are as follows:

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Employees		
Salaries, wages and other benefits	**4,300**	1,200
Discretionary bonus	**650**	1,757
Contributions to retirement benefits scheme	**151**	155
Share based payments expenses	**2,284**	920
	7,385	4,032

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

Of the five highest paid individuals in the Group for the year ended December 31, 2014, two are directors and each of their emolument falls within the band of HK$6,500,001 to HK$7,000,000, whilst the remaining three are employees and each of their emoluments fall within the band of HK$3,500,001 to HK$4,000,000, HK$3,000,001 to HK$3,500,000 and HK$2,000,001 to HK$2,500,000, respectively. In 2013, five highest paid individuals include two director and their emolument falls within the band of HK$2,000,001 to HK$2,500,000 and three employees and each of their emolument falls within the band of HK$1,500,001 to HK$2,000,000.

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

	2014	2013
	RMB'000	RMB'000
PRC Enterprise Income Tax ("PRC EIT")		
Current year	**80,688**	70,233
Over provision in prior years	**(21,883)**	—
Deferred tax (note 21)	**(2,656)**	63
	56,149	70,296

The tax charge for the years ended December 31, 2014 and 2013 can be reconciled to the profit before taxation as follows:

	2014	2013
	RMB'000	RMB'000
Profit before taxation	**341,208**	260,376
Tax at the PRC EIT rate of 25%	**85,302**	65,094
Tax effect of expenses not deductible for tax purpose	**7,056**	7,454
Tax effect of income not taxable for tax purpose	**(12,483)**	(4,950)
Tax effect of different tax rates	**(2,506)**	(1,187)
Tax effect of tax losses not recognized	**663**	1,162
Utilization of tax losses previously not recognized	**—**	(27)
Withholding tax on undistributed profits of PRC subsidiaries	**—**	2,750
Over provision in prior years	**(21,883)**	—
Income tax expense for the year	**56,149**	70,296

13. INCOME TAX EXPENSE – *continued*

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 Services Company Limited ("Chongqing Anle Services") and Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), two 100% owned subsidiaries of the Group, which are located in specific province of Western China and engaged in specific encouraged industry, enjoy a preferential tax rate of 15% under EIT Law. The preferential tax rate for Chongqing Anle Funeral Services is effective until 2020 and the preferential tax rate for Chongqing Anle Services is renewed annually.

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, 2014 and 2013.

14. DIVIDENDS

During the year ended December 31, 2014, the Group has declared interim dividends of HK1.95 cents (equivalent to approximately RMB1.55 cents) (2013: nil) per share amounting to RMB32,143,000, which was recognized as dividend distributions for the year.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2014 of HK1.95 cents (equivalent to approximately RMB1.55 cents) (2013: nil) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

The dividends recognized as distributions for the year ended December 31, 2013 of RMB159,500,000 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.

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:

	2014	2013
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	**230,372**	167,255
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,073,150,685**	1,516,399,117
Effect of dilutive potential ordinary shares: Share options	**37,619,750**	14,192,189
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,110,770,435**	1,530,591,306

The computation of diluted earnings per share for 2014 does not assume the exercise of some of the Company's options because their exercise would result in an increase in earnings per share attributable to the owners of the Company.

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, 2013	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	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
Additions	1,747	3,480	3,668	6,040	59,867	74,802
Acquired on acquisition of subsidiaries (note 34(a) (b))	1,210	—	109	122	27,304	28,745
Transfer	—	—	44	—	(44)	—
Disposals	(670)	—	(1,299)	(1,073)	(311)	(3,353)
At December 31, 2014	**137,520**	**9,055**	**27,110**	**32,076**	**145,114**	**350,875**
DEPRECIATION						
At January 1, 2013	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
Provided for the year	8,268	1,497	3,877	5,171	—	18,813
Eliminated on disposals	(542)	—	(694)	(1,020)	—	(2,256)
At December 31, 2014	**39,578**	**4,951**	**17,274**	**17,768**	—	**79,571**
CARRYING VALUES						
At December 31, 2013	103,381	2,121	10,497	13,370	58,298	187,667
At December 31, 2014	**97,942**	**4,104**	**9,836**	**14,308**	**145,114**	**271,304**

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	12.50% - 20%
Furniture, fixtures and equipment	9.50% - 31.67%
Motor vehicles	19.00% - 23.75%

As at December 31, 2014, the Group pledged buildings with carrying values of approximately RMB5,957,000 (2013: RMB10,555,000), 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, 2014, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB12,009,000 (2013: RMB12,742,000) 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, 2013	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
Additions	422	—	—	422
Acquired on acquisition of subsidiaries (note 34(a))	158	—	—	158
At December 31, 2014	**3,036**	**2,076**	**11,808**	**16,920**
AMORTISATION				
At January 1, 2013	599	1,836	—	2,435
Provided for the year	191	240	—	431
At December 31, 2013	790	2,076	—	2,866
Provided for the year	345	—	—	345
At December 31, 2014	**1,135**	**2,076**	**—**	**3,211**
CARRYING VALUES				
At December 31, 2013	1,666	—	11,808	13,474
At December 31, 2014	**1,901**	**—**	**11,808**	**13,709**

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, 2014 and 2013, the Group's management 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, 2014, 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% (2013: 16.6%) 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 5% (2013: 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. PREPAID LEASE PAYMENT

Prepaid lease payment with carrying amount of RMB 13,174,000 arises from acquisition of Chongqing Baitayuan Funeral and Burial Development Co., Ltd as per note 34(a) with the purpose of building funeral parlour. The prepaid lease payment has definite useful life of 70 years and amortized on a straight-line basis over the lease term.

19. CEMETERY ASSETS

	Prepaid lease payments RMB'000	Landscape facilities RMB'000	Development cost RMB'000	Total RMB'000
COST				
At January 1, 2013	252,614	47,452	87,581	387,647
Additions	42,033	4,315	11,471	57,819
Acquired on acquisition of a subsidiary	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
Additions	2,436	9,182	10,440	22,058
Acquired on acquisition of subsidiaries (note 34(a) (b))	169,826	13,490	1,275	184,591
Transfer to inventories	(4,574)	(530)	(964)	(6,068)
At December 31, 2014	**505,197**	**74,081**	**119,931**	**699,209**
AMORTIZATION				
At January 1, 2013	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
Provided for the year	7,775	3,876	1,540	13,191
Eliminated on transfer	(347)	(252)	(128)	(727)
At December 31, 2014	**37,603**	**18,992**	**13,966**	**70,561**
CARRYING VALUES				
At December 31, 2013	307,334	36,571	96,626	440,531
At December 31, 2014	**467,594**	**55,089**	**105,965**	**628,648**

19. CEMETERY ASSETS – *continued*

	2014 RMB'000	2013 RMB'000
The Group's prepaid lease payment included in cemetery assets payment comprises:		
Land use rights in the PRC for which development had not yet commenced:		
Medium-term lease	**368,796**	203,660
Long-term lease	**98,798**	103,674
	467,594	307,334

The prepaid lease payments have definite useful lives and amortized on a straight-line basis over the lease terms. As at December 31, 2014, the prepaid lease payments include deposits for acquisition of land amounting to RMB52,812,000 (2013: RMB53,109,000), and the carrying value of lease payments to individuals amounting to approximately RMB26,264,000 (2013: RMB25,305,000).

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.

20. RESTRICTED DEPOSITS

Restricted deposits include (i) 10% of the cemetery maintenance fee received in Shanghai Fu Shou Yuan Industrial Development Co. (上海福壽園實業發展有限公司). In accordance with the requirement of Shanghai government, the deposit has to be placed into a designed joint named bank account with 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, (ii) approximate 3% cemetery sales of Shanghai Nan Yuan Industrial Development Co. (上海南院實業發展有限公司) for the use of cemetery maintenance; and (iii) approximate 5% of the cemetery sales of Henan Fu Shou Yuan Ltd (河南福壽園有限公司) deposited in a designed joint named bank account with Xinzheng Funeral Association (新鄭市民政局殯葬管理所) for the use of cemetery maintenance.

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, 2014:

	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, 2013	17,202	78	15,630	(26,204)	(5,230)	1,476
Acquisition of subsidiaries	—	—	—	(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
Acquisition of subsidiaries (note 34(a)(b))	—	1,357	1,309	(40,110)	—	(37,444)
Credit (charge) to profit or loss	610	(1,499)	853	2,692	—	2,656
At December 31, 2014	**20,073**	**474**	**13,176**	**(67,364)**	**—**	**(33,641)**

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

For the purpose of presentation in the 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,	
	2014 RMB'000	2013 RMB'000
Deferred tax assets	**33,723**	31,093
Deferred tax liabilities	**(67,364)**	(29,946)
	(33,641)	1,147

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.

21. DEFERRED TAXATION – *continued*

The Group has unused tax losses of approximately RMB13,243,000 (2013: RMB12,047,000) as at December 31, 2014. Deferred tax assets have been recognized in respect of approximately RMB1,896,000 (2013: RMB2,466,000) of such losses as at December 31, 2014. No deferred tax assets have been recognized in respect of the remaining approximately RMB11,347,000 (2013: RMB9,581,000) as at December 31, 2014 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.

Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. Under tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%.

As described in note 14, subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2014 of HK1.95 cents (equivalent to approximately RMB1.55 cents) (2013: nil) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting. The Directors present that the dividend will be paid out of the Company's share premium account and the retained profits of the PRC subsidiaries as of December 31, 2014 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 retained profits of the Group's PRC entities as the Group is able to control the timing of the reversal of such temporary differences and it is probable that such temporary differences would not be reversed in foreseeable future.

22. INVESTMENT IN A JOINT VENTURE

	At December 31,	
	2014	2013
	RMB'000	RMB'000
Cost of investments in a joint venture		
Fangshan Cemetery	**30,000**	—

During 2014, the Group has entered into a joint venture arrangement pursuant to which the net profit generated from the joint venture will be shared among the Group and the other joint operator as to 51% and 49%, respectively. As of December 31, 2014, the joint venture is still at development stage and no profit or loss has been recognized for the joint venture. The joint venture will be engaged in sale of burial plots in the future.

23. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES

	At December 31, 2014 RMB'000
Deposit for acquisition of subsidiaries	
Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd. (note(a))	279,300
Zaozhuang Shanting Xingtai Funeral Services Co., Ltd.(note(b))	4,500
Wuyuan Wanshoushan Lingyuan Co., Ltd. (note(c))	10,000
	293,800

Note:

(a) In November, 2014, the Group entered into an agreement to acquire 70% equity interest in Liaoning Guanlingshan Cutrual Landscape Cemetery Co.,Ltd (遼寧觀陵山藝術園林公墓有限公司) ("Liaoning Guanlingshan") for a total consideration of RMB279,300,000. As of December 31, 2014, the total consideration has been paid. The closing of the transaction is pending for obtaining the approval from relevant government in the PRC. The principal activity of Liaoning Guanlingshan comprises development and sale of burial plots and funeral products.

(b) In December, 2014, the Group entered into an agreement to acquire 100% equity interest in Zaozhuang Shanting Xingtai Funeral Services Co., Ltd.(棗莊市山亭興泰殯儀服務有限公司) ("Shanting Xingtai"). Pursuant to the agreement, the Group will acquire 100% equity interest in Shanting Xingtai for a cash consideration of RMB5,000,000, and the Group will pay an aggregate amount of RMB54,800,000 to the shareholders of Shanting Xingtai to acquire the outstanding indebtedness owed to them by Shanting Xingtai. The Group had advanced to the shareholders of Shanting Xingtai approximately RMB4,500,000 as a deposit for the acquisition. The principal activity of Shanting Xingtai comprises sales of burial plots, columbarium and products for provision of burial service and funeral service.

(c) In December, 2014, the Group entered into an agreement to acquire 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd.(婺源縣萬壽山陵園有限公司) ("Wanshoushan Lingyuan") for a total cash consideration of RMB40,000,000.The Group had advanced to the shareholders of Wanshoushan Lingyuan an amount of approximately RMB10,000,000 as a deposit for the acquisition. The principal activity of Wanshoushan Lingyuan comprises sales of burial plots, columbarium and products for provision of burial service and funeral service.

According to the agreements for acquisition of Liaoning Guanlingshan, Wanshouhan Lingyuan and Shanting Xingtai, the consideration or deposit paid is refundable if the other parties of the contract cannot fulfill their obligations pursuant to the contract terms. Subsequent to December 31, 2014, the Group completed acquisition of Liaoning Guanlingshan and Wanshoushan Lingyuan on January 9, 2015 and February 13, 2015, respectively.

24. GOODWILL/IMPAIRMENT TESTING ON GOODWILL

The movement of goodwill as at December 31, 2014 and 2013 are as follows:

	2014 RMB'000	2013 RMB'000
COST		
At January 1	**28,102**	18,507
Arising on acquisition of subsidiaries	**66,357**	9,595
	94,459	28,102

The carrying amounts of goodwill as at December 31, 2014 and 2013 are as follows:

	2014 RMB'000	2013 RMB'000
Shanghai Nanyuan	**9,595**	9,595
Jinzhou Maoshan Anling	**3,738**	3,738
Henan FSY Industrial	**14,769**	14,769
Chongqing Baitayuan as defined in (note 34(a))	**47,458**	—
Nanchang FSY as defined in (note 34(b))	**18,899**	—
	94,459	28,102

For the purposes of impairment testing, goodwill have been allocated to each of the individual CGUs, comprising five subsidiaries in the burial serveries segment. During the years ended December 31, 2014 and 2013, the Group's management determines that there are no impairments of any of its CGUs containing goodwill.

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:

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

(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% (2013: 16.9%). Cash flow beyond that five-year period has been extrapolated using a steady 5% 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% (2013: 17.2%). Cash flow beyond that five-year period has been extrapolated using a steady 5% 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% (2013: 16.6%). Cash flow beyond that five-year period has been extrapolated using a steady 5% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

(d) Chongqing Baitayuan

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 15.0%. Cash flow beyond that five-year period has been extrapolated using a steady 6% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

(e) Nanchang FSY

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 15.0%. Management estimates that the land will be fully developed and sold out in the following ten years.

25. INVENTORIES

	2014 RMB'000	2013 RMB'000
Burial Plots	**149,957**	139,314
Tombstone	**55,052**	41,144
Others	**10,724**	2,222
	215,733	182,680

26. OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Prepayments and deposits to suppliers	**—**	14,285
Prepayments and rental deposits on properties	**1,443**	1,041
Staff advances	**1,380**	1,161
Entrusted loan (note)	**12,000**	—
Others	**5,260**	4,599
	20,083	21,086

Note:

The Group has advanced a loan amounting to RMB12,000,000 to a third party who is the business partner for a future project with the Group.

27. BANK BALANCES AND CASH

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

	2014 RMB'000	2013 RMB'000
Interest rate per annum		
– RMB	**0.35%-4.80%**	0.35%-0.50%
– HK$	**0.01%**	0.01%
– US$	**0.10%**	0.10%

27. BANK BALANCES AND CASH – *continued*

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

	2014 RMB'000	2013 RMB'000
HK$	**138,208**	293,590
US$	**28,879**	39,786
	167,087	333,376

28. TRADE AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000
Trade payables	**92,110**	50,850
Advances and deposits from customers	**45,879**	23,624
Payables for acquisition of property and equipment	**5,664**	8,216
Salary, welfare and bonus payables	**77,245**	63,310
Other taxes payable	**—**	6,749
Other accrued expenses	**8,952**	6,424
Unpaid listing expense	**—**	10,358
Consideration for acquisition of a subsidiary	**12,196**	—
Others	**16,391**	1,790
	258,437	171,321

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:

	2014 RMB'000	2013 RMB'000
0 - 90 days	**32,748**	19,123
91 - 180 days	**12,009**	9,596
181 - 360 days	**23,277**	7,662
Over 361 days	**24,076**	14,469
	92,110	50,850

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

29. BORROWINGS

	2014	2013
	RMB'000	RMB'000
Bank borrowings		
– secured by the Group's assets	**29,950**	34,050
– Guaranteed by an independent third party	**5,000**	5,000
	34,950	39,050

The bank borrowings carried interest at 6.00% to 7.20% per annum (2013: 6.00% to 8.65%) and wholly repayable within one year. Such borrowings were secured against the Group's buildings as disclosed in note 16.

30. 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,	
	2014	2013
	RMB'000	RMB'000
Carrying amount analyzed as:		
Amounts shown under current liabilities	**13,097**	11,629
Amounts shown under non-current liabilities	**166,545**	142,967
	179,642	154,596

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, 2014, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB13,045,000 (2013: RMB10,147,000).

31. SHARE CAPITAL

	Number of shares	Amount
		US$
Ordinary shares of US$0.01 each		
Authorized:		
At January 1, 2013	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 and December 31, 2014	20,000,000,000	200,000,000

Issued and fully paid:

	Number of shares	Amount	Shown in the Financial Information as
		US$	RMB'000
At January 1, 2013	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
Issue of shares by exercise of over-allotment option (note (e))	75,000,000	750,000	4,531
At December 31, 2014	2,075,000,000	20,750,000	125,689

31. SHARE CAPITAL – *continued*

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) On January 9, 2014, the Company issued a total of 75,000,000 new ordinary shares of US$0.01 each at the price of HK$3.33 per share by means of full exercise of over-allotment option.

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

32. 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

Special reserve of RMB5,000,000 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.

Special reserve of RMB 79,667,000 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.

33. 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 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.

On August 5, 2014, 42,000,000 share options under the Share Option Scheme were granted to the Directors and employees of the Company, representing 2.0% of the shares of the Company in issue as of December 31, 2014. The terms of the share options granted are:

(1) All options granted are at an exercise price of HK$ 4.14 per share.

(2) All options granted to employees under the Share Option Scheme can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From August 5, 2016 to August 4, 2018	50% of the total number of shares underlying the options granted.
From August 5, 2017 to August 4, 2018	50% of the total number of shares underlying the options granted.

	August 5, 2014
Share price	HK$4.14
Exercise price	HK$4.14
Expected volatility	24.4%
Option life	4 years
Dividend yield	1%
Risk-free interest rate	1.1365%
Forfeiture rate	5%

33. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

(3) All options granted to Directors under the Share Option Scheme can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From August 5, 2016 to August 4, 2024	50% of the total number of shares underlying the options granted.
From August 5, 2017 to August 4, 2024	50% of the total number of shares underlying the options granted.

	August 5, 2014
Share price	HK$4.14
Exercise price	HK$4.14
Expected volatility	24.4%
Option life	10 years
Dividend yield	1%
Risk-free interest rate	2.0520%
Forfeiture rate	—

Set out below are details of movements of the outstanding options granted under the Share Option Scheme during the year ended December 31, 2014:

	Number of options				
	Outstanding as at January 1, 2014	Issued during the year	Exercised during the year	Forfeited in the year	Outstanding as at December 31, 2014
Directors:					
Bai Xiaojiang	—	2,000,000	—	—	2,000,000
Tan Leon Li-an	—	400,000	—	—	400,000
Wang Jisheng	—	2,000,000	—	—	2,000,000
Huang James Chih-Cheng	—	400,000	—	—	400,000
Lin Hung Ming	—	400,000	—	—	400,000
Lu Hesheng	—	400,000	—	—	400,000
Chen Qunlin	—	200,000	—	—	200,000
Luo Zhuping	—	200,000	—	—	200,000
Ho Man	—	200,000	—	—	200,000
Wu Jianwei	—	200,000	—	—	200,000
	—	6,400,000	—	—	6,400,000
Senior management	—	7,700,000	—	—	7,700,000
Other employees	—	27,900,000	—	—	27,900,000
	—	42,000,000	—	—	42,000,000
Exercisable at the end of the year					—
Weighted average exercise price (HKD)	N/A	4.14	N/A	N/A	4.14

33. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

Fair value at grant date is HK$ 0.78 per share. The fair value of the share options is determined using a binomial option pricing model. The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity on August 5, 2018 as of the date of grant. Expected volatility was determined based on the historical share price volatility since one months after initial public offering. 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 RMB4,385,000 for the year ended December 31, 2014 in relation to share options 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.

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.

33. SHARE BASED COMPENSATION – *continued*

Pre-IPO Share Option Scheme – *continued*

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, 2014:

	Number of options				
	Granted on August 8, 2013, and outstanding as at December 31, 2013	Issued during the year	Exercised during the year	Forfeited in the year	Outstanding as at December 31, 2014
Directors:					
Bai 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)	0.9	N/A	N/A	N/A	0.9

The estimated fair value of share options granted was approximately RMB37,849,413. 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%
Option life	4.0 years
Risk-free interest rate	0.7806%
Forfeiture rate	3.4%

33. SHARE BASED COMPENSATION – *continued*

Pre-IPO Share Option Scheme – *continued*

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 RMB15,784,000 (2013: 6,576,000) for the year ended December 31, 2014 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

34. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of 60% equity interest in Chongqing Baitayuan Funeral and Burial Development Co., Ltd ("Chongqing Baitayuan")

On June 18, 2014, Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership), a wholly-owned subsidiary of the Group, entered into an agreement with all other equity holders of Chongqing Baitayuan, pursuant to which Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership) acquires an aggregate of 60% equity interest in the Chongqing Baitayuan for a cash consideration of RMB122,886,000. Chongqing Baitayuan is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on August 31, 2014.

34. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of 60% equity interest in Chongqing Baitayuan Funeral and Burial Development Co., Ltd ("Chongqing Baitayuan") – *continued*

The net assets acquired in the transaction, and the goodwill arising on a provisional basis, are as follows:

Net assets acquired:	**RMB'000**
Property and equipment	28,555
Intangible assets	158
Prepaid lease payment	13,240
Cemetery assets	137,772
Inventories	5,508
Other receivables	402
Bank balances and cash	21,778
Trade and other payables	(53,147)
Deferred tax	(28,552)
	125,714
Non-controlling interests	(50,286)
Goodwill	47,458
Satisfied by:	
Cash consideration	122,886
Net cash outflow arising on acquisition:	
Cash consideration paid	110,690
Less: bank balances and cash acquired	(21,778)
	88,912

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 40% in Chongqing Baitayuan 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 Chongqing Baitayuan because the consideration for the combination effectively included amounts in relation to the future business growth of Chongqing Baitayuan. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

34. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of 60% equity interest in Chongqing Baitayuan Funeral and Burial Development Co., Ltd ("Chongqing Baitayuan") – *continued*

Included in the profit for the year ended December 31, 2014 is approximately RMB2,664,000 attributable to the additional business generated by Chongqing Baitayuan. Revenue for the year ended December 31, 2014 includes approximately RMB7,289,000 generated from Chongqing Baitayuan.

Had the acquisition been completed on January 1, 2014, total group revenue for the year would have been approximately RMB800,242,000 , and profit for the year would have been approximately RMB285,938,000. 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, 2014, nor is it intended to be a projection of future results.

(b) Acquisition of 100% equity interest in Nanchang Fu Shou Yuan Funerial Co., LTD. ("Nanchang FSY")

On December 1, 2014, Nanchang Hongfu, a 50.89% owned subsidiary of the Group, acquired 100% equity interest in Nanchang FSY for a cash consideration of RMB36,000,000. After the acquisition, Nanchang FSY became an indirectly 50.89% owned subsidiary of the Company. The acquisition was accounted for using the acquisition method. Nanchang FSY is engaged in sale of burial plots and was acquired as part of the Group's expansion.

The net assets acquired in the transaction on a provisional basis are as follows:

Net assets acquired:	**RMB'000**
Property and equipment	190
Cemetery assets	46,819
Inventories	17,016
Trade and other receivables	231
Bank balances and cash	3,613
Trade and other payables	(41,876)
Deferred tax	(8,892)
	17,101
Goodwill	18,899
Satisfied by:	
Cash consideration	36,000
Net cash outflow arising on acquisition:	
Cash consideration paid	36,000
Less: bank balances and cash acquired	(3,613)
	32,387

34. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 100% equity interest in Nanchang Fu Shou Yuan Funerial Co., LTD. ("Nanchang FSY") – *continued*

Included in the profit for the year ended December 31, 2014 is approximately RMB206,000 attributable to the additional business generated by Nanchang FSY. Revenue for the year ended December 31, 2014 includes approximately RMB995,000 generated from Nanchang FSY.

Had the acquisition been completed on January 1, 2014, total group revenue for the year would have been approximately RMB806,536,000 , and profit for the year would have been approximately RMB288,396,000. 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, 2014, nor is it intended to be a projection of future results.

35. 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:

	2014	2013
	RMB'000	RMB'000
Within one year	**6,448**	5,243
In the second to fifth years inclusive	**5,129**	7,356
After five years	**73**	103
	11,650	12,702

The lease payments represent rentals payable by the Group for certain properties and land. The lease terms ranged from one year to twelve years.

36. CAPITAL COMMITMENTS

	2014	2013
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property and equipment:		
– contracted for but not provided in the consolidated financial statements	**26,300**	70,519
– authorized but not yet contracted for	**30,204**	60,000
Capital expenditure in respect of the acquisition of subsidiaries:		
– contracted for but not provided in the consolidated financial statements	**85,300**	—

37. 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 RMB 9,219,000 for the year ended December 31, 2014(2013: RMB9,003,000), represent contributions paid and/or payable to the schemes by the Group for the years ended December 31, 2014 and 2013.

38. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the years ended December 31, 2014 and 2013, the Group entered into the following transactions with related parties:

	2014	2013
	RMB’000	RMB’000
Interest income generating from borrowings Zhongfu	—	238

(b) Compensation of key management personnel

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

39. LOANS FROM NON-CONTROLLING INTERESTS

	2014	2013
	RMB'000	RMB'000
Shandong World Trade Center 山東世界貿易中心	38,173	38,173
Nanchang Municipal Public Investing & Holding Co.,Ltd. 南昌市政公用投資控股有限責任公司	21,396	—
	59,569	38,173

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

The loan from Shandong World Trade Center of 38,173,000 (2013: RMB38,173,000) as at December 31, 2014, carried fixed interest rates at 7.8% (2013: 9.18%) per annum. The loan from Nanchang Municipal Public Investing & Holding Co.,Ltd. of RMB21,396,000 as at December 31, 2014 carried fixed interest rates at 12% per annum.

As at December 31, 2014 and 2013, Shandong World Trade Center 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, 2014 and 2013.

Pursuant to the borrowing contract signed with Nanchang Municipal Public Investing & Holding Co.,Ltd, the Group should repay the amount before November 9, 2015. Accordingly, the amount is shown under current liabilities as at December 31,2014.

40. DETAILS OF SUBSIDIARIES

The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2014 and 2013 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, 2014 %	2013 %	Principal activities
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 重慶福壽園集團有限公司	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 河南福壽園實業有限公司	PRC	July 7, 2003	RMB30,120,000	**100**	100	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 (a)) 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 (b)) 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

40. 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, 2014 %	2013 %	Principal activities
Hefei Huazhijian Flowers Company Limited "Hefei Huazhijian" (note (b)) 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
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 funeral services
Jinzhou Maoshan Anling 錦州市帽山安陵有限責任公司	PRC	January 7, 2004	RMB8,000,000	**100**	100	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	RMB90,508,235	**100**	100	Investment holding
Nanchang Hongfu 南昌洪福人文紀念有限責任公司 (note (c))	PRC	November 17, 2009	RMB90,000,000	**50.89**	50.89	Sale of 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

40. 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, 2014 %	2013 %	Principal activities
Xiamen Huaixiang Condolence Services Company Limited 廈門懷祥禮儀服務有限公司	PRC	December 31, 2012	RMB5,000,000	**90**	90	Provision of funeral services
Anhui Province Zhongfude Power Saving Environmental Friendly Technology Company Limited 福壽園環保機械製造有限公司	PRC	November 20, 2012	RMB30,000,000	**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 (d))	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	PRC	January 9, 2013	RMB1,000,000	**80**	80	Provision of funeral services
Shanghai Nanyuan^ (note (e)) 上海南院實業發展有限公司	PRC	January 25, 2007	RMB50,000,000	**40**	40	Provision of burial services
Shanghai Zhongdefu Power Saving Environmental friendly Technology 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**	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**	51	Sale of agricultural products
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**	95	Provision of designing service

40. 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
				2014	2013	
				%	%	
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**	51	Inactive
Chongqing Baitayuan Funeral and Burial Development Co., Ltd °^ (note (f)) 重慶白塔園殯葬開發有限公司	PRC	September 8, 1997	RMB13,405,700	**60**	—	Provision of burial and funeral service
Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership)*– 重慶福鼎股權投資基金合夥企業(有限合夥)	PRC	March 13, 2014	RMB390,840,000	**100**	—	Investment holding
Nanchang Fu Shou Yuan Funerial Co., LTD. °^ (note (g)) 南昌福壽園殯儀有限責任公司	PRC	June 8, 1999	RMB32,730,000	**50.89**	—	Provision of burial service
Huaibei Fu Shou Yuan Jinianling Co., LTD*^ 准北福壽園紀念陵有限責任公司	PRC	September 25, 2014	RMB30,000,000	**100**	—	Provision of burial service

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

* The entitie was set up during the year ended December 31, 2014.

^ 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.

° These entities are acquired during the year ended December 31, 2014.

40. DETAILS OF SUBSIDIARIES – *continued*

Notes:

(a) 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, 2014 and 2013.

(b) 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.

(c) 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.

(d) 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).

(e) 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.

(f) The Group acquired 60% interests in Chongqing Baitayuan on August 31, 2014 and has practical ability to direct the relevant activities of Chongqing Baitayuan. As such,Chongqing Baitayuan is accounted for a subsidiary of the Group from August 31, 2014.

(g) The Group acquired 100% interest in Nanchang Fushouyuan via its 50.89% owned subsidiary, Nanchang Hongfu, on December 1,2014. As such, Nanchang Fushouyuan is accounted for a subsidiary of the Group from December 1, 2014.

41. 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	
		2014	2013	2014	2013	2014	2013
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Hefei Dashushan Co	PRC	40	40	15,544	11,508	22,253	20,708
Nanchang Hongfu	PRC	49.11	49.11	(218)	(980)	43,000	43,218
Shandong FSY Development	PRC	50	50	4,262	(1,744)	21,065	16,803
Shanghai Nanyuan	PRC	60	60	32,676	14,136	88,406	82,163
Chongqing Baitayuan	PRC	40	—	719	—	51,005	—
Individually immaterial subsidiaries with non-controlling interests				1,704	(95)	3,310	1,927
Total				54,687	22,825	229,039	164,819

Note:

As disclosed in note 34, Chongqing Baitayuan was acquired by the Group on August 31, 2014 and became a subsidiary since then.

41. 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.

Hefei Dashushan Co

	2014	2013
	RMB'000	RMB'000
Current assets	**93,624**	75,843
Non-current assets	**11,493**	21,205
Current liabilities	**35,577**	34,121
Non-current liabilities	**13,910**	11,157
Equity attributable to owners of the Company	**33,377**	31,062
Non-controlling interests	**22,253**	20,708

	2014	2013
	RMB'000	RMB'000
Revenue	**84,682**	67,969
Expenses	**(45,823)**	(39,199)
Profit and total comprehensive income attributable to the owner of the Company	**23,315**	17,262
Profit and total comprehensive income attributable to non-controlling interests	**15,544**	11,508
Profit and total comprehensive income for the year	**38,859**	28,770
Dividends paid to non-controlling interests	**14,000**	10,000
Net cash inflow from operating activities	**54,329**	23,769
Net cash outflow from financing activities	**(35,281)**	(25,125)
Net cash inflow (outflow)	**19,048**	(1,356)

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

Nanchang Hongfu

	2014	2013
	RMB'000	RMB'000
Current assets	**45,536**	48,612
Non-current assets	**47,203**	42,863
Current liabilities	**5,181**	3,473
Equity attributable to owners of the Company	**44,558**	44,784
Non-controlling interests	**43,000**	43,218

	2014	2013
	RMB'000	RMB'000
Revenue	**—**	—
Expenses	**(444)**	(1,996)
Loss and total comprehensive income attributable to the owner of the Company	**(226)**	(1,016)
Loss and total comprehensive income attributable to non-controlling interest	**(218)**	(980)
Loss and total comprehensive income for the year	**(444)**	(1,996)
Net cash outflow from operating activities	**(414)**	(34,093)
Net cash outflow from investing activities	**(3,663)**	(42,337)
Net cash outflow	**(4,077)**	(76,430)

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

Shandong FSY Development

	2014	2013
	RMB'000	RMB'000
Current assets	**45,460**	37,930
Non-current assets	**134,336**	128,695
Current liabilities	**88,204**	84,175
Non-current liabilities	**49,462**	48,844
Equity attributable to owners of the Company	**21,065**	16,803
Non-controlling interests	**21,065**	16,803

	2014	2013
	RMB'000	RMB'000
Revenue	**44,869**	36,416
Expenses	**(36,345)**	(39,904)
Profit (loss) and total comprehensive income attributable to the owner of the Company	**4,262**	(1,744)
Profit (loss) and total comprehensive income attributable to non-controlling interest	**4,262**	(1,744)
Profit (loss) and total comprehensive income for the year	**8,524**	(3,488)
Net cash inflow from operating activities	**6,556**	3,862
Net cash outflow from investing activities	**(651)**	(583)
Net cash inflow	**5,905**	3,279

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

Shanghai Nanyuan

	2014	2013
	RMB'000	RMB'000
Current assets	**124,252**	111,269
Non-current assets	**76,469**	73,873
Current liabilities	**44,927**	42,099
Non-current liabilities	**8,450**	6,104
Equity attributable to owners of the Company	**58,938**	54,776
Non-controlling interests	**88,406**	82,163

	2014	2013
	RMB'000	RMB'000
Revenue	**108,934**	67,049
Expenses	**(54,474)**	(43,489)
Profit and total comprehensive income attributable to the owner of the Company	**21,784**	9,424
Profit and total comprehensive income attributable to non-controlling interest	**32,676**	14,136
Profit and total comprehensive income for the year	**54,460**	23,560
Dividends paid to non-controlling interests	**26,433**	9,902
Net cash inflow from operating activities	**63,536**	22,249
Net cash outflow from investing activities	**(1,654)**	(876)
Net cash outflow from financing activities	**(44,055)**	—
Net cash inflow	**17,827**	21,373

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

Chongqing Baitayuan

	2014 RMB'000
Current assets	19,975
Non-current assets	175,337
Current liabilities	31,194
Non-current liabilities	36,606
Equity attributable to owners of the Company	76,507
Non-controlling interests	51,005

	2014 RMB'000
Revenue	7,289
Expenses	(5,492)
Profit and total comprehensive income attributable to the owner of the Company	1,078
Profit and total comprehensive income attributable to non-controlling interest	719
Profit and total comprehensive income for the year	1,797
Net cash outflow from operating activities	(1,845)
Net cash outflow from investing activities	(5,374)
Net cash outflow	(7,219)

42. INFORMATION OF FINANCIAL POSITIONS OF THE COMPANY

The statement of financial position of the Company as at December 31, 2014 and 2013 are as follows:

	2014	2013
	RMB'000	RMB'000
Trade and other receivable	**229**	—
Interest in subsidiaries and amount due from subsidiaries	**1,486,402**	1,146,907
Bank balances and cash	**660**	204,615
Total assets	**1,487,291**	1,351,522
Trade and other payable	**179**	—
Amount due to a subsidiary	**69,008**	27,077
Dividends payable	**—**	55,000
Total liabilities	**69,187**	82,077
	1,418,104	1,269,445
Capital and reserves		
Share capital	**125,689**	121,158
Reserves (Note (a))	**1,292,415**	1,148,287
	1,418,104	1,269,445

42. INFORMATION OF FINANCIAL POSITIONS OF THE COMPANY – *continued*

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 January 1, 2013	—	—	—	(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
Issue of shares at premium through exercise of over-allotment option	180,226	—	—	—	180,226
Share based compensation	—	—	20,169	—	20,169
Loss and total comprehensive expense for the year	—	—	—	(24,124)	(24,124)
Dividends recognized as distributions	(32,143)	—	—	—	(32,143)
At December 31, 2014	**1,243,174**	**79,667**	**26,745**	**(57,171)**	**1,292,415**

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.

43. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the Group completed acquisition of Liaoning Guanlingshan and Wanshoushan Lingyuan. Details of the acquisitions are set out in note 23 and the Company's announcement dated January 9, 2015 and February 13, 2015. Besides, the Group and the shareholders of Shanting Xingtai entered into a supplemental agreement on February 9, 2015 to amend the remaining consideration clauses. Details of the supplemental agreement are set out in the Company's announcement dated February 9, 2015.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	350,470	421,420	479,977	611,811	**795,092**
Costs of sales	(67,783)	(77,628)	(93,659)	(120,152)	**(159,259)**
Gross profit	282,687	343,792	386,318	491,659	**635,833**
Other gains and losses	3,217	18,845	9,789	29,432	**58,128**
Distribution and selling expenses	(57,900)	(71,778)	(95,214)	(105,982)	**(149,394)**
Administrative expenses	(75,124)	(103,062)	(104,062)	(122,951)	**(199,680)**
Finance costs	(5,870)	(8,615)	(10,837)	(5,281)	**(3,679)**
Other expenses	—	—	—	(26,501)	**—**
Share of profits of associates	6,225	9,366	8,638	—	**—**
Profit before tax	153,235	188,548	194,632	260,376	**341,208**
Income tax expense	(39,567)	(46,973)	(56,431)	(70,296)	**(56,149)**
Profit for the year	113,668	141,575	138,201	190,080	**285,059**
Attributable to:					
Owners of the Company	104,253	130,692	124,270	167,255	**230,372**
Non-controlling interests	9,415	10,883	13,931	22,825	**54,687**
	113,668	141,575	138,201	190,080	**285,059**
Earnings per share					
Basic	0.07	0.09	0.08	0.11	**0.11**
Diluted	—	—	0.08	0.11	**0.11**

	As at 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total Assets	622,423	845,500	1,035,222	2,468,151	**2,935,120**
Total Liabilities	(350,997)	(564,852)	(654,220)	(723,214)	**(722,808)**
	271,426	280,648	381,002	1,744,937	**2,212,312**
Equity attributable to owners of the Company	216,908	204,537	243,087	1,580,118	**1,983,273**
Non-controlling interests	54,518	76,111	137,915	164,819	**229,039**
	271,426	280,648	381,002	1,744,937	**2,212,312**

"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 14, 2015
"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 18, 2015 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 Baitayuan"	Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established in the PRC. It is an indirect non-wholly owned subsidiary of the Company
"Chongqing Anle Funeral Services"	Chongqing Anle Funeral Services Co., Ltd.* (重慶安樂殯儀服務有限公司), a company established in the PRC on January 23, 2003. It is an indirect wholly-owned subsidiary of the Company
"Chongqing Anle Services"	Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a company established in the PRC on September 11, 1997. It is an indirect wholly-owned subsidiary of the Company

"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
"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
"Fangshan Cemetery Phase II"	A cemetry in Huaibei City of Anhui Province jointly developed by the Company and Huaibei Funeral Service Center* (淮北市殯葬服務中心). For further details, please refer to the announcement published by the Company on August 28, 2014
"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
"Hefei Dashushan Cultural Cemetery"	Hefei Dashushan Cultural Cemetery is operated by Hefei Dashushan Co
"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
"Huaibei FSC"	Huaibei Funeral Service Center* (淮北市殯葬服務中心)
"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
"Hongfu Human Culture Memorial Park"	A cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
"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

DEFINITIONS AND GLOSSARY

"Jinzhou Maoshan Anling"	Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a company established in the PRC on January 7, 2004, and an indirect wholly-owned subsidiary of the Company
"Lending General Provisions"	Lending General Provisions issued by the PBOC (中國人民銀行貸款通則)
"Liaoning Guanlingshan"	Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a company established in the PRC. It is an indirect non-wholly owned subsidiary of the Company
"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)
"Meilin Century Cemetery"	A cemetery in Nanchang City of Jiangxi Province acquired and operated by Nanchang Hongfu
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Nanchang Hongfu"	Nanchang Hongfu Humanities Memorial Co., Ltd.* (南昌洪福人文紀念有限責任公司), a 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)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國人民共和國國務院國有資產監督管理委員會)
"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 FSY Development"	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
"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

"Shanting Xingtai"	Zaozhuang Shanting Xingtai Funeral Services Co,, Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established in the PRC. 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
"Wanshoushan Lingyuan"	Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a company established in the PRC. It is an indirect non-wholly owned subsidary of the Company
"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.