



福寿园
FU SHOU YUAN



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

2015 ANNUAL REPORT

Stock code: 01448



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Ma Xiang (appointed with effect from
12 January 2016)
Mr. Lin Hung Ming (also known as Lin Hon Min)
(resigned with effect from 12 January 2016)
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. Wang Jisheng
Mr. Chen Qunlin
Mr. Ho Man
Mr. Luo Zhuping

REMUNERATION COMMITTEE

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

COMPLIANCE COMMITTEE

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

JOINT COMPANY SECRETARIES

Mr. Zhao Yu
Ms. Wong Wai Ling

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang
Mr. Zhao Yu

REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS

Room 1306
No. 88 Cao Xi Road North
Shanghai
China 200030

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 709, 7/F
K. Wah Centre
191 Java Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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 2015 full-year results of the Group.

In 2015, the Group continued to expand the business presence of its core business across the country. Although China's economic growth has slowed down, the core business still managed to achieve robust growth due to the relatively limited impact of the economic cyclical fluctuation on the death care industry, the Group's successful execution of its business expansion strategy and the continuous improvement of its internal management. During the Year Under Review, the Group recorded satisfactory results with its revenue reaching RMB1,108.0 million, representing an increase of 39.3% compared with 2014 (2014: RMB795.1 million). The gross profit margin of the Group was 77.6% (2014: 80.0%). Net profit was RMB365.2 million, representing an increase of 28.1% compared with 2014 (2014: RMB285.1 million), of which profit and total

comprehensive income attributable to shareholders was RMB284.4 million, representing an increase of 23.5% compared with 2014 (2014: RMB230.4 million).

The Board proposes a final dividend of HK2.39 cents per share for 2015 to the Shareholders. Together with the interim dividend of HK2.39 cents per share distributed during the year, the total dividend for the full year of 2015 is HK4.78 cents per share, which is in line with the Group's committed dividend policy to reward all investors for their support.

During the Year Under Review, the Group further stepped up its development efforts in core business and actively expanded its business coverage. Currently, cemeteries and funeral facilities controlled by the Group span 15 cities throughout the PRC. In 2015, the Group contracted and completed the acquisitions of Changzhou Qifengshan Cemetery (常州棲鳳山陵園) and Anyang Tianshouyuan Cemetery (安陽天壽園), and entered into a cooperation agreement with the government-operated funeral home of Dafeng City in Jiangsu Province in relation to the joint establishment of Dafeng Funeral Service Center. In 2014, the Group entered agreements to acquire Guanlingshan Cultural Cemetery (觀陵山文化園) and Wuyuan Wanshoushan Cemetery (婺源萬壽山陵園), and such acquisitions were also completed in 2015. Those projects which were acquired successively since 2014 have started to bring in remarkable benefits to the Group, contributing sales revenue of RMB184 million during the Year Under Review, accounting for 16.6% of total sales revenue of the Group. During the year, in response to China's policies to promote Public-Private-Partnership (PPP) model, the Group has also successfully made significant inroads into the market in Shandong Province. We believe that our unprecedented move of supplementing the government and private cooperation on "Build-Operate-Transfer" ("BOT") model to build funeral home, together with joint development of cemeteries, will set a good example for implementing strategic cooperation agreements with other local governments and will facilitate further breakthroughs in strategic cooperation of the Group with local governments in the PRC in the future. The Group has completed the construction of the production base for environment-friendly cremation machines in Guangde City in Anhui Province during 2015. Preparation work for mass production and sales progressed according to plan. It is believed that such cremation machines business will make considerable contribution to the business growth of the Group in the foreseeable future.

CHAIRMAN'S STATEMENT

During the Year Under Review, the Group has set up “Fu Shou Yuan Life Service College (福壽園生命服務學院)”, to promote life education in all aspects, cultivate our culture among staff, and enhance the promotion of corporate culture. The college will nurture a huge number of staff who recognize Fu Shou Yuan culture, in keeping our human resources development aligned with our acquisition and expansion.

Meanwhile, the Group has carried out multi-faceted strategic cooperation comprehensively to provide strong support to the leap-frog development of its business. During the Year Under Review, the investment in the Group by Sunshine Life Insurance Co., Ltd.* (陽光人壽保險股份有限公司) has optimized the equity structure of the Group and led the Group to further develop in terms of scale, diversity and penetration. The Group has also entered into a strategic cooperation with Service Corporation International (“SCI”) of the United States, whereby both parties will join hands to propel development of the death care industry in the PRC and around the world. In addition, the Group has entered into strategic cooperation agreements with numerous banks in the PRC through which credit facilities and financial service support were secured so that the Company can strengthen its partnership with banks and diversify its financing channels. Such multi-level strategic cooperation has further strengthened the Group's capital base, unlocked more market opportunities and strengthen its brand, and in turn enabled Group to pursue diversified development and more rapid growth in the future.

The Group maintained healthy development along its organic and extensive growth path. It is only with the unwavering support from all sectors of the society and each of our staff, that we can achieve our goals and accomplish today's achievements. I would like to take this opportunity, on behalf of the Board, to thank all shareholders, business partners and customers of the Company for their trust and support. Looking forward to year 2016, the Group will leverage its leading business strength, consolidation capability and capital strength to shore up its core competence and service standards while expanding the business scope of the Group to promote the Group's cutting-edge branding experience across the country. It will further increase the Group's brand value and promote modernized integration of China's death care industry in a comprehensive way. In addition, the Group will, in addition to extending its business presence, implement more stringent integration and management on its acquired subsidiaries in order to create more synergistic effect with such subsidiaries to lay a solid foundation for the steady and sustainable growth in both business and revenue. The Group will continue to leverage on better corporate governance, management structure and prudent financial strategy to push forward its people-oriented development ideology which takes its root in culture. The Group will continue to pursue win-win strategy by delivering social benefits whilst seeking profit growth. It will continue to step up its efforts in supporting charity, implanting the culture of humanity, developing environmental-protection cause and cultivating the unique culture of the Group, which in turn will maximize value and create best return for our shareholders.

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

Hong Kong, March 18, 2016

MANAGEMENT DISCUSSION AND ANALYSIS



MARKET OVERVIEW

“Filial piety” has long been China’s traditional culture and virtue, which serves as the back bone for the death care industry to subsist and develop in the PRC. The Group currently focuses on the death care service market in the PRC which for its huge population base and the cultural heritage of “filial piety”, has developed into the largest death care market in the world.

The increasing disposable income per capita in the PRC, strong promotion by the government on Chinese traditional culture and virtue, accelerating pace of urbanization and aging population, have generated huge demand on death care services, enabling the death care service industry in the PRC to develop into one of the industries where the growth is fairly predictable and moderate. Although the economic growth of the PRC has slowed down, the death care industry is relatively less affected by economic cyclical fluctuations and the driving factors are still driving the development of the death care industry in the PRC.

BUSINESS COMMENTARY

The Group is the largest death care services provider in the PRC. The Group strives to develop cemeteries into urban cultural parks, upgrades traditional death care industry into modern service industry that caters to customers’ needs, and provides customized services and a richer selection to customers. We respect and serve for lives, help our customers vent their grief and find their emotional attachment, and honor the final journey of life with inherent equality and dignity. In 2015, the Group has as always continued to put efforts into the landscaping and cultural constructions of existing cemeteries, improve service quality, and explore new service products and models proactively. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain wide recognition from our customers.

Leveraging its capital strength after Listing as well as the advanced operation philosophy and extensive management experience in the death care industry, the Group actively expanded its business and achieved excellent results. In 2015, we completed the acquisition of Guanlingshan Cultural Cemetery, Wuyuan Wanshoushan Cemetery, Anyang Tianshouyuan Cemetery and Changzhou Qifengshan Cemetery. With strenuous efforts, the cemetery in Huaibai City of Anhui Province was available for sale and one of our cemeteries in Nanchang City of Jiangxi Province became ready for construction. We also entered into cooperation agreement with Dafeng Funeral Home in Dafeng City, Jiangsu Province on jointly developing Dafeng Funeral Services Center. As at the end of 2015, we owned up to 14 cemeteries (of which 13 were constructed and 1 was under construction), and were operating up to 9 funeral facilities throughout the PRC. At the same time, we are trying to expand in an innovative manner; for example, we generate revenue by providing entrusted management services to three small cemeteries. Our business coverage has expanded to 15 cities across 10 provinces or municipalities in China; the expanding business footprints lay a good foundation for our future development.

In addition, in January and February 2016, we entered into agreements on the construction and operation of funeral homes under BOT model and the construction of cemeteries on a joint venture basis with relevant local governments of Tai’an City in Shandong Province and Bishan District in Chongqing Municipality respectively. We believe this will set new patterns and models for the reform of death care industry in China and help us to expand business in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS COMMENTARY – *continued*

Construction of the production base for environmental-friendly cremation machines in Guangde City of Anhui Province was completed in February 2015. We will apply to obtain accredited environmental testing on our cremation machines soon. We have confidence in the testing results. Although our environmental-friendly cremation machine business is still in its initial development stage, the latest environmental requirements on cremation machines in the PRC have generated huge market demand. It is believed that the environmental-friendly cremation machine business will make considerable contribution to the Group's revenue in the near future.

During the course of rapid development, we constantly built and strengthened the Group's core competitiveness and market consolidation capabilities. We made dedicated efforts in establishing "Culture and Education Committee" (文化教育委員會) and "Fu Shou Yuan Life Service College" (福壽園生命服務學院) to introduce, preach and implement the advanced international funeral concepts so as to train and reserve professionals for business expansion. We constantly motivated our management and employees. In March 2015, we implemented the third batch of share-based compensation scheme which further enhanced and boosted the Group's internal cohesion and employees' motivation. Also, the Group continued to enhance internal management, strengthen budget control and internal management system.

Based on these efforts, in 2015, the Group realized the sale of 17,322 tombs and performed 15,176 funeral services and recorded total revenue of RMB1,108.0 million, representing an increase of 39.3% as compared to 2014; the Group made a net profit totalling RMB365.2 million, representing an increase of 28.1% as compared to 2014 and net profit attributable to our shareholders of RMB284.4 million, representing an increase of 23.5% as compared to 2014.

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			
	2015		2014	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Burial services	960,176	86.7%	673,571	84.7%
Funeral services	140,124	12.6%	109,836	13.8%
Auxiliary services	12,352	1.1%	11,685	1.5%
Inter-segment elimination	(4,692)	(0.4%)	—	—
Total	1,107,960	100.0%	795,092	100.0%

Our revenue increased by RMB312.9 million, or 39.3%, from RMB795.1 million for 2014 to RMB1,108 million for 2015. This increase was primarily driven by a 42.6%, or RMB286.6 million, increase in revenue from burial services, and a 27.6%, or RMB30.3 million, increase in revenue from funeral services.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE – continued

Our cremation machine manufacturing base was completed in February 2015 and has been undergoing the trial production stage. It generated a revenue of RMB9.2 million for 2015, which was included in the auxiliary services segment.

Our cemeteries and funeral facilities are strategically located in major cities across 10 provinces in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region for the Year Under Review:

	Year ended December 31			
	2015		2014	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai	555,516	50.4%	462,567	59.0%
Henan	64,450	5.9%	54,453	7.0%
Chongqing	90,869	8.3%	67,732	8.7%
Anhui	102,891	9.4%	84,682	10.8%
Shandong	44,825	4.1%	44,869	5.7%
Liaoning	189,135	17.1%	52,377	6.7%
Jiangxi	27,337	2.4%	996	0.1%
Fujian	21,626	2.0%	13,526	1.7%
Zhejiang	2,784	0.3%	2,205	0.3%
Jiangsu	867	0.1%	—	—
Total	1,100,300	100.0%	783,407	100.0%

We have been focusing on providing top quality burial and funeral services to our customers and strengthened our sales and marketing effort during 2015. As a result, we achieved growth in almost every location where we operate as compared with 2014. In addition, Chongqing Baitayuan and Meilin Century Cemetery, which were acquired in the 2nd half of 2014, provided services throughout 2015 and contributed revenue growth of RMB37.7 million. We also completed the acquisitions of the controlling equity in Guanlingshan Cultural Cemetery, Wuyuan Wanshoushan Cemetery, Anyang Tianshouyuan Cemetery, and Changzhou Qifengshan Cemetery during 2015. These cemeteries contributed revenue of RMB138.4 million since completion of the aforesaid acquisitions. Other then-existing cemeteries and funeral facilities contributed revenue growth of RMB140.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BURIAL SERVICES

We derive a substantial portion of our revenue from burial services, which represented 86.7% (2014: 84.7%) of our total revenue for 2015. 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 98.3% of our revenue from burial services for 2015. The following table sets forth 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							
	2015				2014			
	Average		% of revenue	Average		% of revenue		
	Selling price	Revenue	from burial	Selling price	Revenue	from burial		
	No. of Units	(RMB per Unit)	(RMB'000)	services	No. of Units	(RMB per Unit)	(RMB'000)	services
Sale of burial plots								
- Customized	724	296,227	214,468	22.3%	696	269,647	187,674	27.9%
- Artistic	6,692	53,350	357,016	37.2%	3,783	64,662	244,616	36.3%
- Traditional	5,534	42,093	232,944	24.3%	2,520	47,909	120,730	17.9%
- Lawn	780	63,577	49,590	5.2%	755	54,417	41,085	6.1%
- Green	2,506	5,132	12,860	1.3%	586	10,401	6,095	0.9%
- Indoor	1,086	10,869	11,804	1.2%	1,753	5,003	8,772	1.3%
- Other burial related services	—	—	65,492	6.8%	—	—	51,554	7.7%
	17,322	—	944,174	98.3%	10,093	—	660,526	98.1%
Cemetery maintenance services	—	—	16,002	1.7%	—	—	13,045	1.9%
Total revenue from burial services	17,322	—	960,176	100.0%	10,093	—	673,571	100.0%

During 2015, we sold 11,397 burial plots, excluding 2,430 plots (1,269 plots for 2014) charged at very low prices in Haigang Fu Shou Yuan for public welfare purpose and 3,495 plots (1,385 plots for 2014) sold by Henan Fu Shou Yuan to accommodate the tomb relocation funded by local government in Henan Province, representing a 53.2% increase as compared with 7,439 plots (excluding those plots in relation to public welfare and relocation) sold for 2014. Chongqing Baitayuan and Meilin Century Cemetery sold 1,010 plots for full 2015, while they reported 205 plots sold in 2014 since they became our subsidiaries in the 2nd half of 2014. The cemeteries newly acquired in this year sold 3,305 plots for 2015. The total increase of units sold, were primarily contributed by these two factors.

MANAGEMENT DISCUSSION AND ANALYSIS

BURIAL SERVICES – *continued*

Furthermore, the selling prices of burial plots of each cemetery vary according to local market conditions. Therefore, average selling price (“ASP”) for each type of burial plot is affected by change in geographical mix of burial plots sold in different years. The ASP of burial plots, excluding those plots for public welfare and tomb relocation purpose as mentioned above, was approximately RMB80,211 per unit for 2015. It was decreased by RMB8,351 per unit, or 9.4%, from approximately RMB88,562 per unit for 2014. The main reason is the lower ASP from the newly acquired subsidiaries, which was approximately RMB40,907 per unit for 2015. Excluding this effect, the ASP (excluding those plots in relation to public welfare and relocation as mentioned above) for 2015 was RMB104,159 per unit, representing an increase of RMB14,095 per unit or 15.6% as compared with 2014.

We have twelve cemeteries in operation as of December 31, 2015, and have been deriving revenue from them. We achieved remarkable growth for 2015 in almost every cemetery where we operate as compared to 2014. 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			
	2015		2014	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	390,287	40.6%	342,956	50.9%
Haigang Fu Shou Yuan	151,272	15.8%	108,934	16.2%
Henan Fu Shou Yuan	63,674	6.6%	54,453	8.1%
Shandong Fu Shou Yuan	44,825	4.7%	44,869	6.7%
Hefei Dashushan Cultural Cemetery	71,589	7.4%	62,247	9.2%
Jinzhou Maoshan Anling	60,713	6.3%	52,377	7.8%
Chongqing Baitayuan	25,332	2.6%	6,740	1.0%
Meilin Century Cemetery	17,847	1.9%	995	0.1%
Guanlingshan Cultural Cemetery	128,422	13.4%	—	—
Wuyuan Wanshoushan Cemetery	4,573	0.5%	—	—
Anyang Tianshouyuan Cemetery	776	0.1%	—	—
Changzhou Qifengshan Cemetery	866	0.1%	—	—
Total revenue from burial services	960,176	100.0%	673,571	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

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			
	2015		2014	
	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	195,235	78.7%	119,962	75.3%
Funeral services	43,968	17.7%	30,028	18.9%
Auxiliary services	11,750	4.7%	9,269	5.8%
Inter-segment elimination	(2,792)	(1.1%)	—	—
Total	248,161	100.0%	159,259	100.0%

Our cost of sales and services increased by RMB88.9 million, or 55.8%, from RMB159.3 million for 2014 to RMB248.2 million for 2015. This increase was primarily due to a 62.7% increase in the cost of sales and services for burial services, and a 46.4% increase in the cost of sales and services for funeral services. The increases were mainly due to our business growth in burial and funeral services and the trial production of cremation machine manufacturing base in 2015.

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

	Year ended December 31			
	2015		2014	
	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	60,000	30.7%	44,407	37.0%
Land cost	24,369	12.5%	14,034	11.7%
Development cost	51,944	26.7%	23,815	19.9%
Taxes	14,720	7.5%	6,809	5.7%
Cemetery maintenance cost	9,140	4.7%	8,993	7.5%
Costs for other burial related services	35,062	17.9%	21,904	18.2%
Total	195,235	100.0%	119,962	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 manufacturing and sale of cremation machines and other services, including materials purchased, direct labor, manufacturing overheads, outsourcing costs, and other related costs.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB224.0 million, or 35.2%, from approximately RMB635.8 million for 2014 to approximately RMB859.8 million for 2015. We maintained a relatively high and stable gross profit margin as we have been committing to and 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. Our overall gross profit margin achieved was 77.6% for 2015 while the overall gross profit margin for 2014 was 80.0%. The decrease was mainly due to the relatively lower margin of newly acquired subsidiaries and the negative margin of cremation machine business as its low volume while the fixed operating costs during trial production stage in 2015. 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			
	2015		2014	
	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)
Burial services	764,941	79.7%	553,609	82.2%
Funeral services	96,156	68.6%	79,808	72.7%
Auxiliary Services	602	4.9%	2,416	20.7%
Inter-segment elimination	(1,900)	40.5%	—	—
Total	859,799	77.6%	635,833	80.0%

OTHER INCOME AND GAINS, NET

The following table sets forth a breakdown of major components of our net other income and gains for the Year Under Review:

	Year ended December 31	
	2015 (RMB'000)	2014 (RMB'000)
Interest income	39,329	54,491
Government grants	15,101	—
Management service income	3,984	—
Exchange gain	5,624	4,433
Others	(855)	(796)
Total	63,183	58,128

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME AND GAINS, NET – *continued*

Our interest income decreased by RMB15.2 million from RMB54.5 million for 2014 to RMB39.3 million for 2015, mainly due to lower average bank balances as a result of our accelerated merger and acquisition progress since the 2nd half of 2014, and decreased interest rate as the central bank of China announced to decrease the RMB interest rates during 2015.

We received government grants in the amount of RMB15.1 million for 2015, which represented unconditional subsidies from the local government to encourage and reward our Listing and our contribution to the local economy. We did not receive such grants from government for 2014.

We were approached to provide management services to certain cemeteries by their owners because of our operation and management expertise in death care industry. During 2015, we received net income of RMB4.0 million for such services provided.

We recorded exchange gain of RMB5.6 million for 2015, as a result of appreciation of Hong Kong dollar against RMB and US dollar against RMB during the year.

DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 41.1% of our total revenue for 2015 (43.9% for 2014), increased by RMB106.5 million, or 30.5%, from RMB349.1 million for 2014 to RMB455.6 million for 2015. The increase was mainly as the result of: (i) the increased operating expenses from the newly acquired subsidiaries, amounting to approximately RMB60.0 million, (ii) higher amortization of stock option expenses as option granted in August 2014 and March 2015, amounting to approximately RMB9.2 million, and higher staff costs due to the new hiring, and (iii) general variable expenditures increase to support the business growth.

FINANCE COSTS

Finance costs for 2015 consist of interest expense of RMB4.4 million on bank loans, interest expenses of RMB3.3 million on loans from non-controlling interests.

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 Fu Shou Yuan, from Shandong World Trade Centre. Shandong Fu Shou Yuan is jointly invested by our Group and Shandong World Trade Centre. Our Group and Shandong World Trade Centre jointly provide funding to Shandong Fu Shou Yuan, 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. Nanchang Municipal Public Investing & Holding Co., Ltd. is one of the minority shareholders of our subsidiary, Nanchang Hongfu. This borrowing was paid off in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

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, while our effective corporate income tax rates for 2015 was 20.5% (2014: 16.5%). It was mainly because: (i) Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan, were subject to a lower concessionary income tax rate of 15% pursuant to preferential tax policies for development of China's western regions; (ii) our interest income received on bank deposits by our subsidiary in Hong Kong is free from any income tax according to the Hong Kong tax rules; (iii) we have also reversed certain prior year tax provisions in 2015 and 2014 as the tax uncertainties of which have been resolved; and (iv) one-off reassessment was made on the deferred tax liabilities arising from the time differences between accounting base and tax base due to the change of tax rate of Chongqing Baitayuan, from 25% to 15% in 2015.

The income tax expense increased by approximately RMB38.3 million, or 68.2% from approximately RMB56.1 million for 2014 to approximately RMB94.4 million for 2015, mainly due to the increased profit before taxation as a result of business growth and different extent of above factors' impact.

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 RMB54.1 million, or 23.5%, from approximately RMB230.4 million for 2014 to approximately RMB284.4 million for 2015. This increase was primarily due to the contribution from newly acquired subsidiaries as well as our strong organic revenue growth in our previously existing cemeteries and funeral facilities. The increase was however partially offset by the lower gross profit margin of the newly acquired subsidiaries and the increased operating costs to support the business growth.

CASH FLOW

The following table sets forth a summary of our consolidated statements of cash flows for the Year Under Review:

	Year ended December 31	
	2015 (RMB'000)	2014 (RMB'000)
Net cash generated from (used in)		
– operating activities	366,578	298,952
– investing activities	(381,434)	(480,108)
– financing activities	(5,140)	(66,099)
Total	(19,996)	(247,255)

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW – *continued*

We generated our cash from operating activities primarily from proceeds of our death care services businesses. Our cash used in operating activities is primarily for the development and construction of cemeteries, selling and distribution expenses, administrative expenses and other operating expenditures. Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, finance costs, the changes in working capital and taxation. For 2015, our net cash generated from operating activities amounted to approximately RMB366.6 million, representing 22.6% increase as compared to that for 2014. It mainly included the operating cash inflows before movement in working capital of approximately RMB512.9 million, partially offset by the increase of other working capital of approximately RMB53.5 million and income tax paid of approximately RMB92.7 million.

For 2015, our net cash used in investing activities was approximately RMB381.4 million. It was primarily due to: (i) considerations, deposits and advances of RMB307.6 million paid to acquire new cemeteries and funeral facilities, (ii) our additions to and deposits for property and equipments of approximately RMB109.6 million, mainly in connection with: (a) the deposits of approximately RMB60.2 million for intended land acquisition in Tieling City, (b) the landscaping and facility construction and upgrade in certain newly acquired subsidiaries since the 2nd half of 2014, (c) the construction of new customer service centers in Haigang Fu Shou Yuan and Jinzhou Maoshan Anlin, and (d) the general landscaping, facilities and equipments upgrade in other subsidiaries within the group. It was partially offset by the interests received during the year, amounting to approximately RMB38.9 million.

Our net cash used in financing activities amounted to approximately RMB5.1 million for 2015. It was primarily due to: (i) final dividends paid to owners of the Company of RMB32.4 million related to 2014 and interim dividends of RMB40.5 million for 2015, (ii) dividends paid to non-controlling interests of approximately RMB58.5 million, (iii) repayment of the borrowings from non-controlling interests of approximately RMB21.4 million, and (iv) interest paid of approximately RMB8.2 million for our borrowings. It was partially offset by: (i) our net increase of bank borrowings of approximately RMB119.5 million to finance certain acquisitions during the year, (ii) capital injection of approximately RMB24.6 million from non-controlling interests of a subsidiary, and (iii) proceeds received of approximately RMB11.8 million related to the exercise of certain employee share options.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2015, we had bank balances and cash of approximately RMB1,276.8 million (December 31, 2014: RMB1,296.8 million). 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, bank borrowings and funds from other financing channels.

We had outstanding bank borrowings of approximately RMB167.5 million as at December 31, 2015, within which there are borrowings of RMB63.5 million repayable within one year, RMB20.5 million repayable within two years, RMB21 million repayable within three years, RMB20.8 million repayable within four years, RMB17.8 million repayable within five years, RMB15.0 million repayable within six years, and RMB8.9 million repayable within seven years. These borrowings were denominated in RMB and were subject to floating interest rates ranged from 4.60% to 6.61% per annum. Meanwhile, Shandong Fu Shou Yuan, one of our subsidiaries, also had an outstanding loan balance of approximately RMB38.2 million with interest rate of 6.0% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre.

In addition, we had bank borrowing facilities of approximately RMB896.1 million committed but not withdrawn as at the date of this report.



MANAGEMENT DISCUSSION AND ANALYSIS

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, 2015 was 7.8% (December 31, 2014: 4.3%). The increase was mainly due to the new borrowings raised to finance certain acquisitions. Our operation has been lightly leveraged because of our good operating cash generating capability. Although we expect that our capital expenditure in the following years will maintain at a high level, we do not estimate our gearing ratio will substantially increase considering the bank balances and cash we currently have in hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The economic environment in which we operate is the PRC and our functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposes us to foreign currency risk. As at December 31, 2015, cash and cash equivalents held in RMB, Hong Kong dollars and US dollars accounted for approximately 91.9%, 5.7% and 2.4% 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. 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 2015, we completed following four acquisitions:

In January 2015, we completed the acquisition of 70% equity interest in Guanlingshan Cultural Cemetery for a cash sum of RMB279.3 million through equity interest subscription. Guanlingshan Cultural Cemetery holds parcels of land for cemetery development and woodland purposes measuring approximately 3,494 mu (approximately 2.33 million sq.m) in total. It has been providing burial services in the cities of Shenyang, Tieling and Fushun in Liaoning Province.

In February 2015, we completed the acquisition of 75% equity interest in Wuyuan Wanshoushan Cemetery from its then existing shareholders for a cash consideration of RMB49.3 million, including the taxes related to this transaction. Wuyuan Wanshoushan Cemetery mainly provides burial services, funeral services and cremation services in Wuyuan County of Jiangxi Province. It holds a site measuring approximately 164,000 sq. m for office building use and cemetery use. It is the only service provider, granted with a license for cremation, for funeral and cemetery operation within the Wuyuan County.

In June 2015, we completed the acquisition of 80% equity interest in Anyang Tianshouyuan Cemetery from its then existing shareholders for a cash consideration of RMB42.4 million. Anyang Tianshouyuan Cemetery holds land use right for a parcel of land measuring 98.6 mu (approximately 65,733 sq.m) in Anyang City of Henan Province. It will provide burial services in Anyang City.

In December 2015, we completed the acquisition of 80% equity interest in Changzhou Qifengshan Cemetery for a total consideration of RMB184 million. Changzhou Qifengshan Cemetery holds land use right for a parcel of land measuring 128 mu (approximately 85,332 sq.m) and has been providing burial services in Changzhou City.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Meanwhile, on June 18, 2015, we entered into a cooperation agreement with government-operated funeral home of Dafeng City in Jiangsu Province, in relation to the establishment of the Dafeng Funeral Service Center, an integrated, one-stop provider for the sale of funeral products, family vigils and farewell services in Dafeng City. The cooperation is currently in the start-up stage.

On January 15, 2016, we entered into a cooperation agreement in relation to the formation of an equity joint venture to invest in and operate a cemetery in Taian City of Shandong Province and an investment agreement in relation to the construction and operation of a funeral home in Taian City under the “BOT” model with relevant local authorities. The cooperation is currently in the start-up stage.

On February 17, 2016, we entered into a comprehensive cooperation agreement in relation to the formation of an equity joint venture to invest in and operate a cemetery in Bishan District of Chongqing Municipality and the construction of a new funeral home in Bishan District under the “BOT” model with the local government. The cooperation is currently in the start-up stage.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2015, we had 1,627 full-time employees. 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 reflected in the financial statements, for the capital expenditures in respect of acquisition of subsidiaries, land, property and equipment in an amount of approximately RMB63.3 million as at December 31, 2015. We had also authorized RMB113.0 million (including the deposits of RMB60.0 million paid as at December 31, 2015) for the acquisition of parcels of land in Nanchang City, Changzhou City and Tieling City via our subsidiaries there.

We expect our capital expenditure in following years will maintain at a relatively high level as we are actively seeking for and approached by many industry consolidation opportunities.



MANAGEMENT DISCUSSION AND ANALYSIS

ASSETS PLEDGED

As at December 31, 2015, we pledged the 75% equity interest of Wuyuan Wanshoushan Cemetery and 80% equity interest of Changzhou Qifengshan Cemetery to secure certain bank borrowings granted to finance the relevant acquisitions. Except for that, no other assets were pledged or charged.

CONTINGENT LIABILITIES

One of our indirect and non-wholly owned subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in 8 law suits with claims over RMB 44 million as a defendant. The details of the law suits please refer to the announcement dated January 7, 2016.

As at the date of this report, the proceedings of these law suits has not been concluded or finalized. It would not be possible to predict the outcome with certainty and whether they would in the end result in any material adverse impact on the financial position and business operation of the Group. As of the date of this report, the Directors are of view that no provision shall necessarily be made according to the legal opinion and the current status of the proceedings.

CEMETERY LANDS AVAILABLE

We derive a substantial portion of our revenue from burial services, out of which, sale of burial plots represented the largest component of our revenue from burial services. For 2015, we expended land of approximately 40,998 sq.m. to generate revenue from sale of burial plots. However, our total saleable area as at December 31, 2015 increased by approximately 220,000 sq.m. to approximately 1.61 million sq.m. from that of 1.39 million sq.m. as at December 31, 2014, because we completed to acquire the controlling equity interest in Guanlingshan Cultural Cemetery, Wuyaun Wanshoushan Cemetery, Anyang Tianshouyuan Cemetery, and Changzhou Qifengshan Cemetery during the year.

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.

EVENTS OCCURRED SINCE THE END OF THE FINANCIAL YEAR

The Group entered into strategic cooperation agreements with the People's Government of Taian City, Shandong Province and the People's Government of Bishan District of Chongqing Municipality (the "**Cooperation**") on January 15, 2016 and February 17, 2016 respectively.

The Cooperation further extends the Group's integrated service strategy from vigil service to funeral arrangement to cremation to cemetery. Meanwhile, the Cooperation initiates the model of the strategic cooperation between the Group and the local governments in the PRC. Leveraging the Company's extensive experience in the development, operation and management of death care services in the PRC, the Board is of the view that the Cooperation will serve as a model for the Group, which can be replicated as the Group expands into other provinces in PRC. The Group expects the Cooperation will lead to a series of cooperation between the Group and other local governments in PRC in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Going forward, in view of the rudimentary market regulation and the fact that significant portion of resources in death care industry in the PRC remain under government control, we will seek for more cooperation with the relevant level of government authorities for the expansion of our geographic presence in selected cities and for more steady business environment and more support from the government. We will also put more efforts into integrating the newly acquired business and enhance them to meet our standards by leveraging our advanced philosophy and expertise in death care business operation. Meanwhile, we will continue to drive the modernization of the death care business in China, promote the healthy development of the national death care culture with humanity, charity and environmental protection in mind. We will try to expand our business in a more steady and sustainable pace, and commit 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 continuously.



PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), aged 58, 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 Fu Shou Yuan 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 Fu Shou Yuan. Mr. Bai has been a director of Chief Union since December 2011. He is also the chairman of Chongqing FSY Group. He acted as one of the promoters of each of NGO 1 and NGO 2. Mr. Bai has more than 18 years of experience in the death care services industry in the PRC and has served the Group for 18 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, 10th and the current 12th Chinese People's Political Consultative Conference, Shanghai. Mr. Bai has also been vice president of the Shanghai General Chamber of Commerce since November 2013 until now. Since January 2014 until now, Mr. Bai has been vice president of Hong Kong China Chamber of Commerce. Mr. Bai has been chairman of the board of directors of Hong Kong-Mainland International Investment Society since February 2015 until now. In addition, since August 2015, Mr. Bai has been an executive council member of the 5th session of council of China Society for Promotion of the Guangcai Program.

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, vice general manager and 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), aged 51, 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 director of Shanghai Fu Shou Yuan and Hefei Dashushan Co since December 2006 and the vice chairman of Chongqing FSY Group since May 2011 up to September 2014. Mr. Tan was a director of FSG Holding from December 2011 to August 2014.

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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Jisheng (王計生), aged 62, is the executive Director and the chief executive of the Company. 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 Fu Shou Yuan and the director and general manager of Chongqing FSY Group since 1996. He is an executive director of Chongqing Anle Services, Chongqing Anle Funeral Services and Shandong Fu Shou Yuan. He is also president of Shanghai FSY Corporate Management Consultancy. He acted as one of the promoters of NGO 2. Mr. Wang has more than 22 years of experience in the death care services industry in the PRC and has served the Group for more than 22 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 the vice president of the China Funeral Association and the officer 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. Mr. Wang was awarded as the national honorary model of labour in April 2015.

NON-EXECUTIVE DIRECTORS

Mr. Lu Hesheng (陸鶴生), aged 66, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 30 years of experience in the death care services industry in the PRC.

Since 2001, he serves as the director and general manager of Shanghai Nam Kwong Petro-Chemical Co., Ltd. Between 1991 and 2001, he was general manager of Zhongfu, chairman and deputy 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.



PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang James Chih-Cheng, aged 57, is the non-executive Director. Mr. Huang has been a general manager of Chongqing Stone Tan Financial Leasing Co., Ltd since April 2015 and had been the Chief Financial Officer of Big Earth Publishing, Boulder, Colorado, since 2011 up to 31 October 2014. Prior to those, Mr. Huang served in various senior management positions within Pacific Millennium Holding Corporation. 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.

Mr. Ma Xiang (馬翔), aged 46, has over 19 years of experience in investment and in the corporate finance industry. Prior to joining the Group, Mr. Ma worked as financial consultant of the investment and mergers department of China Technology International Trust Investment Co., Ltd* (中國科技國際信託投資有限公司) from April 1997 to July 1999, financial controller of Century Network Information Telecom Co., Ltd* (世紀互聯信息電訊股份有限公司) from August 1999 to May 2001, general manager of investment analysis department of Beijing Investment Consultants Inc.* (北京海問諮詢公司) from June 2001 to December 2007 and investment manager of the institutional investment department of Harvest Fund Management (嘉實基金管理有限公司) from January 2008 to August 2010. Mr. Ma served as assistant to general manager of the asset management center of Sunshine Insurance Group (陽光保險集團) from September 2010 to December 2012. Mr. Ma also held various positions at Sunshine Asset Management Corporation Limited (陽光資產管理股份有限公司), including general manager of the securities investment department and research and development department from January 2013 to January 2014, investment controller from January 2014 to September 2015 and assistant to general manager from September 2015 to present.

Mr. Ma obtained a bachelor's degree in investment economics administration (投資經濟管理學), and subsequently a master's degree in accounting, from the Central University of Finance and Economics in the PRC in 1992 and 1997, respectively.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Qunlin (陳群林), aged 69, is the independent non-executive Director. Mr. Chen was the president of China Funeral Association (中國殯葬協會) from 2004 to 2011 and was the president of International Federation of Thanatologist Association (國際殯葬協會) from 2008 to 2010. Before that, Mr. Chen served as the director general of the Social Welfare and Social Affairs Department of the MCA (民政部社會福利和社會事務司) from 2001 to 2004 and the director of China Welfare Lottery Issuing Centre (中國福利彩票發行中心) from 1992 to 2001. Mr. Chen also served as the president of China Communications Press (人民交通出版社) from 1991 to 1992, secretary general of the Political Reform Research Office of the Chinese Communist Party Central Committee (中共中央政治研究室) from 1987 to 1990, secretary of the General Office and Deputy secretary general of the Party Committee of Guizhou Province (中共貴州省辦公廳) from 1976 to 1986. Before that, Mr. Chen also worked at the Commune and County Party Committee of Sinan County, Guizhou Province (貴州省思南縣公社、縣委工作) from 1970 to 1976.

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

Mr. Luo Zhuping (羅祝平), aged 63, 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 (SEHK 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.



PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Man (何敏), aged 47, 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 (SEHK stock code: 1399) and Shanghai Tonva Petrochemical Co., Ltd. (SEHK 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. (SEHK stock code: 1777) since October 2009. In addition, he has served as independent non-executive director of Shenzhen Forms Syntron Information Co. Ltd., which shares are listed on the ChiNext of Shenzhen Stock Exchange, since February 2012, independent non-executive director of China Fire Safety Enterprise Group Limited (SEHK stock code: 0445) since July 2015 and director of Shenzhen Daxiang United Space Construction Ltd.* (深圳市大象聯合空間建設股份有限公司), a company which will soon be listed on the National Equities Exchange and Quotations, since September 2015. Mr. Ho has over 18 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), aged 60, 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 January 1994. Ms. Wu also received training for independent directors from the China Securities Regulatory Commission in April 2002.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

Mr. Yuan Zhenyu, Frank (袁振宇), aged 41, is our chief financial officer. He has 18 years of experience in financial management and holds the qualifications of senior accountant, senior economist and enterprise legal adviser in the PRC. Prior to joining the Group, from July 1998 to April 2015, Mr. Yuan had served in various positions of Baosteel Group Corporation (寶鋼集團有限公司), a world top 500 enterprises and its subsidiary. From July 1998 to May 2004, he worked for Baoshan Iron & Steel Co., Ltd* (寶山鋼鐵股份有限公司) (a Subsidiary of Baosteel Group Corporation, listed on the Shanghai Stock Exchange, stock code: 600019), responsible for capital management. From June 2004 to May 2009, Mr. Yuan served as head of capital management of Baosteel Group Corporation, responsible for corporate finance, cash management, foreign exchange and risk management, capital budgeting and control, corporate credit ratings and financial analysis. Mr. Yuan also served as finance manager, financial controller and general manager of finance of Baosteel Resources International Company Limited (寶鋼資源(國際)有限公司), a wholly-owned subsidiary of Baosteel Group Corporation in Hong Kong, from June 2009 to April 2015, responsible for overall financial and account reporting, taxation planning, capital management and trade settlement. Mr. Yuan has worked in Hong Kong for many years and is familiar with the Hong Kong capital market, accounting and taxation rules and regulations and has significant experience in international trade financing, mergers & acquisitions financing and bond issuance. In addition, Mr. Yuan served as directors at several subsidiaries of Baosteel Resources International Company Limited (寶鋼資源(國際)有限公司) located in Hong Kong, Singapore and Indonesia.

Mr. Yuan graduated from Dongbei University of Finance and Economics (東北財經大學) in July 1998 with a bachelor's degree in economics. He also obtained a Masters degree in economics from Shanghai University of Finance and Economics (上海財經大學) and a Masters degree in Business Administration from Hong Kong Baptist University (香港浸會大學) in March 2006 and November 2012, respectively. Mr. Yuan also completed the 15th session of the General Management Program (GMP) for executives at Harvard Business School in late 2013.

Mr. Ge Qiansong (葛千松), aged 67, is an officer of the Strategy and Investment Development Committee of our Group. He has been deputy general manager and secretary to the board of directors of Shanghai Fu Shou Yuan since 1995. He was also the managing director of Henan Fu Shou Yuan between 2009 and 2012 and Chongqing Anle Services between 2002 and 2012. He is also a director of Chongqing FSY Group. Mr. Ge has nearly 42 years of experience in the funeral service industry and has been in service with our Group for about 21 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.



PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Yi Hua (伊華), aged 48, is the officer of the culture and education committee of the Group and is responsible for our public relations, educational training and cultural branding development. She has been employed by Shanghai Fu Shou Yuan since 1996 and has been its deputy general manager since 2006. Ms. Yi has nearly 20 years of experience in the funeral service industry in the PRC and has been in service with our Group for nearly 20 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 executive deputy officer and 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, the “Top 10 Outstanding Females of Asian Brands” in 2012 and the “Person of Year 2015 in the funeral industry in China” in 2015. Ms. Yi had also been awarded 16 domestic and international planning awards during her 20 years of service. Ms. Yi is the Secretary-General 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. Zhao Yu (趙宇), aged 39, is our joint company secretary and the secretary to the Board and is responsible for the Listing matters and Board secretary affairs. Mr. Zhao joined the Group in 2009. Mr. Zhao was a deputy general manager of the Group. He is the general manager of the secretariat of the Board and is responsible for investor relations, corporate finance and corporate governance of the Group. Mr. Zhao has more than 13 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 (SEHK 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.

DIRECTORS' REPORT

The Board presents the directors' report together with the audited consolidated financial statements of the Group for the year ended December 31, 2015.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are mainly engaged in the provision of burial services and funeral services. The Group's subsidiaries also carry on provision of designing services, manufacturing of cremation devices, sales and after-sales service of cremation devices, provision of flowers and related designing services and sale of agricultural products. Details of the subsidiaries of the Company are set out in Note 40 to the financial statements.

RESULTS OF OPERATIONS

The results of the Group for the year ended December 31, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2011 and 2015 is set out on page 150 in the section "Financial Summary" of this Annual Report.

BUSINESS REVIEW

During the year ended December 31, 2015, the Group realized the sale of 17,322 tombs and performed 15,176 funeral services and recorded total revenue of RMB1,108.0 million, made a net profit totalling RMB365.2 million, and net profit attributable to our shareholders of RMB284.4 million.

As at December 31, 2015, we owned up to 14 cemeteries (of which 13 were constructed and 1 was under construction), and were operating up to 9 funeral facilities throughout the PRC. At the same time, we are trying to expand in an innovative manner; for example, we generate revenue by providing entrusted management services to three small cemeteries. Our business coverage has expanded to 15 cities across 10 provinces or municipalities in China; the expanding business footprints lay a good foundation for our future development.

For more details of the business development and performance of the Group for the Year Under Review, please refer to the section headed "Management Discussion and Analysis". The above section forms part of this report.

Principal risks and uncertainties

As the death care industry in China is originated from a long cultural history, it features a geographically distinctive and traditional operation model. The conventions of such industry are now facing challenging innovation and the maturity of relevant regulations remains to be seen while the world keeps progressing and updating. In a leading position of China's death care industry, the Group is committed to lead the modernization reform of the death care business in China so as to reduce the risk arising from outdated regulations for the industry.

The death care industry in China, subject to the strict requirement of relevant regulations imposed by the government, is a highly regulated industry. There are strict restrictions on licenses and land supply which pose risks and uncertainties on the Group's business expansion.



DIRECTORS' REPORT

One of important strategies of the Group is accomplishing business expansion through mergers and acquisitions. However, the success of such strategy depends on a number of uncertainties, which mainly include: whether the acquired targets have any hidden debts and unknown potential litigations, whether we can integrate the acquired targets properly and enhance their value added, and whether there are sufficient skilled and qualified managerial personnel to satisfy the needs created during our expansion.

In addition, China is promoting the reform for replacing sales tax with VAT. The impact of such reform to the death care industry remains unknown. Requirements and restrictions still exist in China on fund flow under capital accounts, which may affect the Group's flexibility to make use of global funds to implement business expansion and our ability to distribute dividends to foreign investors.

For more details of other risks and uncertainties faced by the Group, please refer to the Prospectus.

Events occurred since the end of the financial year

The Group entered into strategic cooperation agreements with the People's Government of Taian City, Shandong Province and the People's Government of Bishan District of Chongqing Municipality (the "Cooperation") on January 15, 2016 and February 17, 2016 respectively.

The Cooperation further extends the Group's integrated service strategy from vigil service to funeral arrangement to cremation to cemetery. Meanwhile, the Cooperation follows the model of strategic cooperation between the Group and the local governments in the PRC. Leveraging the Company's extensive experience in the development, operation and management of death care services in the PRC, the Board is of the view that the Cooperation will serve as a model for the Group to show in other regions in China and to replicate as the Group expands into other provinces in PRC. The Group expects the Cooperation will lead to a series of future cooperation between the Group and other local governments in PRC.

Future development

For more than two years since its listing, the Group has been striving to consolidate its leading position in the death care industry in China through its operation strategies.

Going forward, in view of the immature market regulation and the fact that significant portion of resources in death care industry in the PRC is still in the control of the government, we will seek for more cooperation with the relevant level of government authorities for the expansion of our geographic presence in selected cities and for more steady business environment and more support from the government.

Meanwhile, leveraging our leading brand and our advanced philosophy and expertise in death care business operation, the Group will continue to expand our business operation in major cities and areas in other provinces through acquiring cemeteries and funeral facilities by way of acquisition, establishment or cooperation. The Group will integrate the newly acquired business, enhance acculturation and improve the management quality to meet our standards, which will in turn increase the value added to the acquired cemeteries and funeral facilities.

We also plan to increase the number of service types of green burial and after-burial services persistently. On the other hand, as increasing attention is paid to environment protection and the environmental protection regulations are becoming stricter, the demand for replacing the existing cremation equipments used in crematories managed by the PRC government with environmental-friendly cremation equipments will rise substantially. We plan to seize the business opportunity brought about by the increase in demand for environmental-friendly cremators through producing and supplying advanced cremation machines.

The Group will continue to drive the modernization of the death care business in China, promote the healthy development of the national death care culture with humanity, charity and environmental protection in mind. We will try to expand our business in a more steady and sustainable pace, and commit 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 continuously.

Environmental policies and performance

Our cemeteries have a fine and green scenery, where the facilities only cause minimal pollution and emission. Meanwhile, we are also an advocate of saving natural resources, including land resources. For instance, the Group has introduced new land-saving products, ranging from arbour burial, indoor burial and villa burial to tree burial, flower bed burial, lawn burial and compact artistic burial. The Group constantly develops products which are land-saving and more environmental-friendly, thus making more contribution to saving land resources and realizing sustainable development.

To resolve the air pollution problem caused during cremation, the Group has researched and developed a late-model environmental-friendly cremator. The construction of our production base of such cremator was completed in February 2015. With this production base, the Group will promote the usage of the environmental-friendly cremator in China, and contribute to reduce the air pollution caused by cremation in the death care industry in China.

Moreover, Fu Shou Yuan has been promoting smoke-free tomb-sweeping in recent years and installed sound arresters for audio devices for tribute and reduced the volume of the music for tribute to reduce air and noise pollution.

Meanwhile, we are formulating more comprehensive environmental protection policies and measures in order to make further contribution to the environmental protection.

Compliance with the relevant laws and regulations

The Group recognizes the importance of compliance with regulatory requirements. The Group has set up system and allocated human resources to ensure ongoing compliance with rules and regulations, and to maintain cordial working relationships with regulators through effective communications. During the Year Under Review, to the best of our knowledge, the Group has complied with all of the relevant laws and regulations in the PRC and Hong Kong, including but not limited to the Company Law of the People's Republic of China, the Hong Kong Securities and Futures Ordinance (Cap. 571), the Listing Rules and the Regulations on Funeral And Interment Control.



DIRECTORS' REPORT

Relationships with stakeholders

The Group's success also depends on the support from key stakeholders which comprise our Directors and senior management members, employees, customers, suppliers, regulators and shareholders.

Directors, senior management and employees

Our performance depends on the ongoing leading service and performance of our Directors and senior management, and on our ability to retain and motivate our Directors and senior management. Our success is also attributable to the expertise and experience of our Directors and senior management members. In addition, our qualified and skilled employees have contributed to the sustained success of our business. The objective of the Group's human resource management is to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group is committed to providing quality services and products to our customers while maintaining long-term profitability, business and earning growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service.

Business partners and suppliers

Some of our cemeteries and funeral facilities are jointly developed, owned or operated with business partners so as to pursue our respective stated strategies. Sound relationships with key suppliers can also derive cost effectiveness and foster long-term business benefits.

Regulators

The Group operates in the death care sector which is regulated by the Ministry of Civil Affairs of the PRC and other relevant regulators. The Group maintains cordial working relationships with regulators through effective communications and ensures compliance with rules and regulations.

Shareholders

One of the Group's objectives is to enhance corporate value to our Shareholders. We are poised to foster business development for achieving sustainability of earning growth and reward our Shareholders by stable dividend payouts taking into account liquidity positions and business expansion needs of the Group.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK2.39 cents per Share for the year ended December 31, 2015 (2014: HK1.95 cents per Share). The final dividend will be payable before the end of June 2016 subject to the approval of 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 Thursday, May 12, 2016 to Monday, May 16, 2016, 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 Wednesday, May 11, 2016.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Friday, May 20, 2016 to Tuesday, May 24, 2016, both days inclusive. During the above period, no transfer of Shares 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 Thursday, May 19, 2016.

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, 2015, purchases from the Group's five largest suppliers accounted for 32.8% (2014: 54.5%) of the Group's total purchases and purchases from our single largest supplier accounted for 11.8% (2014: 17.1%) of the Group's total purchases.

During the year ended December 31, 2015, 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.



DIRECTORS' REPORT

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended December 31, 2015 are set out in note 15 to the audited consolidated financial statements.

SHARE CAPITAL

During the year ended December 31, 2015, 14,293,446 ordinary shares were issued by exercise of share options. The total consideration received by the Company for the above issue is HK\$14,293,446. Details of the movements in the Company's share capital during the year ended December 31, 2015 are set out in note 32 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, 2015 are set out in notes 33 and 42 respectively to the audited consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the Company's reserves available for distribution to the Shareholders, calculated in accordance with the provisions of the Companies Law, as at December 31, 2015, 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, 2015.

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, 2015, the Group made approximately RMB1.0 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, 2015, we had used approximately HK\$127.3 million towards acquiring new lands and approximately HK\$981.6 million, towards mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK\$33.7 million has been used for the expansion of our sales network. The remaining net proceeds are intended to be applied in the manner consistent with that set out in the Prospectus and relevant announcements made.

On August 11, 2015, the Board has resolved to reallocate the proposed use of net proceeds accruing to the Group from the Global Offering by combining the allocations (1) to develop new cemeteries by way of land acquisitions; (2) to set up new funeral facilities; and (3) for mergers and acquisitions into one consolidated pool of funds, representing approximately 87% of the net proceeds to be used either by way of new lands acquisition, or funeral facilities acquisitions or mergers and acquisitions, as the opportunity arises.

Save for the aforesaid changes, there is no other change of the use of net proceeds from the Global Offering.

DIRECTORS

The Directors during the year ended December 31, 2015 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 (*Chief Executive*)

Non-executive Directors

Mr. Lin Hung Ming (also known as Lin Hon Min)¹ (resigned on January 12, 2016)

Mr. Lu Hesheng

Mr. Huang James Chih-Cheng

Mr. Ma Xiang² (appointed on January 12, 2016)



DIRECTORS' REPORT

Independent Non-executive Directors

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

Ms. Wu Jianwei

Note:

¹ Mr. Lin Hung Ming resigned as non-executive Director with effect from January 12, 2016 due to pursuit of his personal commitments.

² Mr. Ma Xiang was appointed as non-executive Director with effect from January 12, 2016.

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 112 of the Articles of Association, Mr. Ma Xiang, being appointed as Director by the Board on January 12, 2016 until the AGM, shall retire at the AGM and has offered himself for re-election.

In accordance with Article 108 of the Articles of Association, Mr. Tan Leon Li-an, Mr. Lu Hesheng and Mr. Huang James Chih-Cheng, 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 except Mr. Ma Xiang 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. Mr. Ma Xiang has entered into a letter of appointment with the Company for a term of three years commencing on January 12, 2016. 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.

TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save for as disclosed under the section headed "Permitted Indemnity Provision", no transaction, arrangement and contract of significance to which the Company, or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended December 31, 2015 or at any time during the year ended December 31, 2015. In addition, no contract of significance between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries was made.

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, 2015. 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, 2015.

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, 2015 are set out in Note 11 to the audited consolidated financial statements.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

EQUITY-LINKED AGREEMENT

Save for the Pre-IPO Share Option Scheme and the Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2015.



DIRECTORS' REPORT

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 9.57% of the issued share capital 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, 2015, 50,000,000 options were granted by the Company under the Share Option Scheme.

As at the date of this Annual Report, the total number of Shares available for issue upon exercise of the options granted under the Share Option Scheme was 91,600,000 Shares representing 4.38% of the issued share capital of the Company.

DIRECTORS' REPORT

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme during the year ended December 31, 2015:

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 March 19, 2015	Options balance outstanding as at January 1, 2015	Options exercised during the year ended December 31, 2015	Options lapsed/ cancelled during the year ended December 31, 2015	Options outstanding as at December 31, 2015	Exercisable period
<i>Directors</i>									
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
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2018 to March 18, 2019
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
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	1,500,000	—	—	—	1,500,000	March 19, 2018 to March 18, 2019
Lin Hung Ming (also known as Lin Hon Min) (Note 1)	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
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
	March 19, 2015	3.126	3.16	250,000	—	—	—	250,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	250,000	—	—	—	250,000	March 19, 2018 to March 18, 2019
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
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019

DIRECTORS' REPORT

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 March 19, 2015	Options balance outstanding as at January 1, 2015	Options exercised during the year ended December 31, 2015	Options lapsed/ cancelled during the year ended December 31, 2015	Options outstanding as at December 31, 2015	Exercisable period
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
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
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
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
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
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	150,000	—	—	—	150,000	March 19, 2018 to March 18, 2019
Chief Financial Officer Luk Wai Keung (Note 2)	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
Other employees of the Group (in aggregate)	August 5, 2014	4.14	4.01	—	17,600,000	—	—	17,600,000	August 5, 2016 to August 4, 2018
	August 5, 2014	4.14	4.01	—	17,600,000	—	—	17,600,000	August 5, 2017 to August 4, 2018
	March 19, 2015	3.126	3.16	21,150,000	—	—	—	21,150,000	March 19, 2017 to March 18, 2019
	March 19, 2015	3.126	3.16	21,150,000	—	—	—	21,150,000	March 19, 2018 to March 18, 2019
Total				<u>50,000,000</u>	<u>42,000,000</u>	<u>—</u>	<u>(400,000)</u>	<u>91,600,000</u>	

Note 1: Lin Hung Ming has resigned on January 12, 2016.

Note 2: Luk Wai Keung has resigned on April 30, 2015.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended December 31, 2015.

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 Eligible Participants. Eligible Participants of Pre-IPO Share Option Scheme include executive officers, senior staff, senior management and directors (including non-executive directors but excluding independent non-executive directors) of the Company or any of its subsidiaries and any individual who is in the opinion of the Board has contributed or will contribute to the results 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 4.79% 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:

Exercisable 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) The Pre-IPO Share Option Scheme was valid between March 10, 2013 and December 18, 2013. 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 validity 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 2.76% 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.

DIRECTORS' REPORT

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 outstanding balance as at January 1, 2015	Options granted during the year ended December 31, 2015	Options exercised during the year ended December 31, 2015	Options lapsed/ cancelled during the year ended December 31, 2015	Options outstanding as at December 31, 2015	Exercisable period
<i>Directors</i>								
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
<i>Substantial Shareholders</i>								
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
<i>Other employees (in aggregate)</i>								
	August 8, 2013	0.9	23,914,194	—	14,293,446	—	9,620,748	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	—	14,293,446	—	43,319,723	

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, 2015.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at December 31, 2015, 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) Shares

Name of Directors	Capacity	Nature of Interests	No. 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	4.62%
Wang Jisheng	Interest in a controlled corporation (Note 2)	Long Position	96,600,000	4.62%
Lu Hesheng	Interest in a controlled corporation (Note 3)	Long Position	27,600,000	1.32%

Notes:

1. Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.62% 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 4.62% 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 1.32% 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 year ended December 31, 2015, 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.

DIRECTORS' REPORT

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

As at December 31, 2015, 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	373,518,000	17.87%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	373,518,000	17.87%
Chief Union	Beneficial owner	Long position	483,000,000	23.11%
Fulechuan	Interest in a controlled corporation (Note 2)	Long position	483,000,000	23.11%
Zhongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	23.11%
Hongfu	Interest in a controlled corporation (Note 4)	Long position	483,000,000	23.11%
NGO 1	Interest in a controlled corporation (Note 5)	Long position	483,000,000	23.11%
NGO 2	Interest in a controlled corporation (Note 6)	Long position	483,000,000	23.11%
UBS Trustees (BVI) Limited	Trustee	Long position	218,700,000	10.46%
Double Riches	Beneficial owner	Long position	119,445,000	5.71%
Ge Qiansong	Interest in a controlled corporation (Note 7)	Long position	119,445,000	5.71%
Sunshine Life Insurance Co., Ltd* (陽光人壽保險股份有限公司)	Beneficial owner (Note 8)	Long position	151,482,000	7.25%
Sunshine Insurance Group Co., Ltd* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 8)	Long position	151,482,000	7.25%

* For identification purpose only

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 17.87% 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 23.11% 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 23.11% 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 23.11% 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 23.11% 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 23.11% 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 5.71% of the issued share capital of the Company in which Double Riches is interested in.
8. Sunshine Insurance Group Co., Ltd is interested in approximately 99.99% of the issued share capital of Sunshine Life Insurance Co., Ltd and therefore Sunshine Insurance Group Co., Ltd is deemed or taken to be interested in approximately 7.25% of the issued share capital of the Company in which Sunshine Life Insurance Co., Ltd is interested in.

Save as disclosed above, as at December 31, 2015, so far was known to the Directors, no other persons (other than the Directors or chief executives) 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

Save as disclosed under the sections headed "Share Option Schemes" and "Pre-IPO Share Option Scheme" above, at no time during the year ended December 31, 2015 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 38 to the audited consolidated financial statements.



DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2015.

CONNECTED TRANSACTION

Shandong World Trade Centre and Shandong Fu Shou Yuan entered into a loan agreement on January 1, 2014 and renewed on January 1, 2015, pursuant to which Shandong World Trade Centre provided a shareholder loan to Shandong Fu Shou Yuan. As at December 31, 2015, the loan remaining outstanding amounted to approximately RMB38,173,000. The interest rate is approximately 6.0% 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 Fu Shou Yuan. In considering the funding requirement for payment of the land premium, Shandong World Trade Centre and Shanghai Fu Shou Yuan (one of our wholly owned subsidiaries), the shareholders of Shandong Fu Shou Yuan, had provided their funding to Shandong Fu Shou Yuan by way of the shareholders' loan based on the respective shareholding percentages in addition to the registered capital.

Shandong World Trade Centre is a connected person of the Company as it is a substantial shareholder of Shandong Fu Shou Yuan and it owns 50% equity interest in Shandong Fu Shou Yuan. 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.90 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, 2015.

DIRECTORS' REPORT

AUDITOR

The financial statements of the Group for the year ended December 31, 2015 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, 2016



CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2015.

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, 2015.

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, 2015.

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, 2015.

CORPORATE GOVERNANCE REPORT

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 (*Chief Executive*)

Non-executive Directors

Mr. Lin Hung Ming(also known as Lin Hon Min) (resigned on 12 January 2016)

Mr. Lu Hesheng

Mr. Huang James Chih-Cheng

Mr. Ma Xiang (appointed on 12 January 2016)

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, 2015, 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.

CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2015. The Board held 4 meetings.

The attendance records of the individual Directors at the Board, Audit Committee, Nomination Committee, Remuneration Committee, Compliance Committee and annual general meeting for the year ended December 31, 2015 are set out as follows:

Name of Directors	No. of Meetings Attended/Held					
	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Compliance Committee Meetings	Annual General Meeting
Executive Directors						
Mr. Bai Xiaojiang	4/4	—	2/2	—	—	1/1
Mr. Tan Leon Li-an	3/4	—	—	1/1	—	0/1
Mr. Wang Jisheng	4/4	—	2/2	—	—	1/1
Non-executive Directors						
Mr. Lin Hung Ming (also known as Lin Hon Min)	4/4	—	—	—	—	1/1
Mr. Lu Hesheng	4/4	—	—	—	—	1/1
Mr. Huang James Chih-Cheng	4/4	2/2	—	—	—	1/1
Independent non-executive Directors						
Mr. Chen Qunlin	3/4	—	2/2	1/1	1/2	0/1
Mr. Luo Zhuping	4/4	2/2	2/2	1/1	2/2	1/1
Mr. Ho Man	4/4	2/2	1/2	—	2/2	1/1
Ms. Wu Jianwei	4/4	—	—	—	1/2	1/1

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, except Mr. Ma Xiang, was appointed to the Board pursuant to the respective letters of appointment dated December 3, 2013 for a term of three years commencing from the Listing Date. Mr. Ma Xiang has entered into a service contract with the Company for a term of three years commencing on January 12, 2016.

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.

CORPORATE GOVERNANCE REPORT

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.



CORPORATE GOVERNANCE REPORT

Continuous Professional Development

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

During the year ended December 31, 2015, all Directors, including Mr. Bai Xiaojiang, Mr. Tan Leon Li-an, Mr. Wang Jisheng, Mr. Lin Hung Ming (also known as Lin Hon Min), Mr. Lu Hesheng, Mr. Huang James Chih-Cheng, Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei, have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director and continuous obligation.

Chairman and Chief Executive

The positions of the chairman and the chief executive are held separately. The role of chairman is held by Mr. Bai Xiaojiang, and the chief executive 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 chief executive 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 chief executive 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.

CORPORATE GOVERNANCE REPORT

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 terms of reference of the Audit Committee has been updated and published on the websites of the Stock Exchange and the Company on December 30, 2015. The updated terms of reference of the Audit Committee includes the duty of review of risk managements. 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, 2015, the Audited Committee held 2 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.



CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2015, the Remuneration Committee held 1 meeting. It had reviewed the share options granted to the eligible participants on March 19, 2015, 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, 2015, 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, 2015, 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.

CORPORATE GOVERNANCE REPORT

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 11 to the audited consolidated financial statements. Save as disclosed therein, there is other 4 individuals of senior management. Pursuant to paragraph B.1.5 of the CG Code, their remuneration by band for the year ended December 31, 2015 is set out below:

Remuneration bands	Number of individual
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	0
HK\$2,500,001 to HK\$3,000,000	1
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, 2015, 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	
	2015	2014
Services rendered for the Group	RMB'000	RMB'000
Audit Services	3,100	2,800
Interim Results Review	700	700
Other service	250	—
Total Fees	4,050	3,500

The Audit Committee was satisfied that the non-audit services in 2015 did not affect the independence of the auditor.



CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT

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 maintained an internal audit function and 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 matters 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 matters; and all branches and subsidiaries implement direct risk management and internal control function for their respective operations.

During the year ended December 31, 2015, the Board has annually reviewed the effectiveness and efficiency of the implementation of its internal control system, which covered all material financial, operational and compliance control and risk management. The Company considered them effective and adequate. 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.

In addition, the Board reviewed and considered the adequacy of resources, staff qualifications and experience, training programmes and relevant budget of the Company's accounting, internal audit and financial reporting functions.

The Board considers that the Group was able to maintain established and effective risk management and internal control systems during the year ended December 31, 2015.

CORPORATE GOVERNANCE REPORT

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 general manager of the secretariat of the Board 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, 2015.

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 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.



CORPORATE GOVERNANCE REPORT

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 Share Registrar. The contact details for the Hong Kong 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, 2015, there has been no change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FU SHOU YUAN INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Fu Shou Yuan International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 149, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2015 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, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	7	1,107,960	795,092
Cost of sales and services		(248,161)	(159,259)
Gross profit		859,799	635,833
Other income and gains, net	8	63,183	58,128
Distribution and selling expenses		(205,442)	(149,394)
Administrative expenses		(250,135)	(199,680)
Finance costs	9	(7,799)	(3,679)
Profit before taxation	10	459,606	341,208
Income tax expense	12	(94,437)	(56,149)
Profit and total comprehensive income for the year		365,169	285,059
Profit and total comprehensive income attributable to:			
Owners of the Company		284,444	230,372
Non-controlling interests		80,725	54,687
		365,169	285,059
		RMB cents	RMB cents
Earnings per share – Basic	14	13.7	11.1
– Diluted	14	13.3	10.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property and equipment	15	361,314	271,304
Intangible assets	16	14,388	13,709
Prepaid lease payments	17	20,029	13,174
Deposits paid for acquisition of land use rights		60,157	—
Cemetery assets	18	1,048,331	628,648
Restricted deposits	19	28,632	23,730
Investment in a joint venture	21	30,000	30,000
Deposit for acquisition of subsidiaries	22	38,001	293,800
Other long-term assets	23	14,400	—
Deferred tax assets	20	29,523	33,723
Goodwill	24	267,661	94,459
		<u>1,912,436</u>	<u>1,402,547</u>
Current assets			
Inventories	25	339,522	215,733
Trade and other receivables	26	34,846	20,083
Bank balances and cash	27	1,276,761	1,296,757
		<u>1,651,129</u>	<u>1,532,573</u>
Current liabilities			
Trade and other payables	28	277,908	258,437
Deferred income	30	15,694	13,097
Loan from non-controlling interest	31	—	21,396
Income tax liabilities		126,059	122,846
Borrowings	29	63,450	34,950
		<u>483,111</u>	<u>450,726</u>
Net current assets		<u>1,168,018</u>	<u>1,081,847</u>
Total assets less current liabilities		<u>3,080,454</u>	<u>2,484,394</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Deferred income	30	198,450	166,545
Loan from non-controlling interests	31	38,173	38,173
Borrowings	29	104,020	—
Deferred tax liabilities	20	90,042	67,364
		<u>430,685</u>	<u>272,082</u>
Net assets			
		<u>2,649,769</u>	<u>2,212,312</u>
Capital and reserves			
Share capital	32	126,601	125,689
Reserves	33	2,109,328	1,857,584
		<u>2,235,929</u>	<u>1,983,273</u>
Equity attributable to owners of the Company		2,235,929	1,983,273
Non-controlling interests		413,840	229,039
		<u>2,649,769</u>	<u>2,212,312</u>
Total equity			

The consolidated financial statements on page 59 to 149 were approved and authorized for issue by the Board of Directors on March 18, 2016 and are signed on its behalf by:

Bai Xiao Jiang
DIRECTOR

Wang Ji Sheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 33)	Statutory surplus reserve RMB'000 (Note 33)	Other reserve RMB'000 (Note 33)	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, 2014	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 subsidiaries	—	—	—	—	—	—	—	—	50,286	50,286
Dividends recognized as distributions (Note 13)	—	(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	—	—	—	—	—	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
Profit and total comprehensive income for the year	—	—	—	—	—	—	284,444	284,444	80,725	365,169
Acquisition of subsidiaries (Note 35)	—	—	—	—	—	—	—	—	138,026	138,026
Dividends recognized as distributions (Note 13)	—	(72,919)	—	—	—	—	—	(72,919)	—	(72,919)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(58,504)	(58,504)
Transfer to statutory reserve	—	—	—	16,419	—	—	(16,419)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	24,554	24,554
Exercise of share options	912	20,278	—	—	—	(9,429)	—	11,761	—	11,761
Share based compensation	—	—	—	—	—	29,370	—	29,370	—	29,370
At December 31, 2015	126,601	1,190,533	84,667	91,906	26,784	46,686	668,752	2,235,929	413,840	2,649,769

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	459,606	341,208
Adjustments for:		
Finance costs	7,799	3,679
Interest income	(39,329)	(54,491)
Depreciation of property and equipment	25,292	18,813
Amortization of cemetery assets	29,484	13,191
Amortization of intangible assets and prepaid lease payment	848	411
Net gain on disposal of property and equipment	(212)	(387)
Expense recognized in respect of equity-settled share based payments	29,370	20,169
	<hr/>	<hr/>
Operating cash flows before movements in working capital	512,858	342,593
Increase in restricted deposits	(4,902)	(4,224)
Increase in cemetery assets and inventories	(58,481)	(26,936)
(Increase) decrease in other receivables	(9,332)	14,533
(Decrease) increase in trade and other payables	(5,090)	24,745
Increase in deferred income	24,266	14,827
	<hr/>	<hr/>
Cash generated from operations	459,319	365,538
Income taxes paid	(92,741)	(66,586)
	<hr/>	<hr/>
NET CASH GENERATED FROM OPERATING ACTIVITIES	366,578	298,952
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	(48,416)	(77,354)
Purchase of intangible assets	(1,052)	(422)
Deposits paid for acquisition of land use rights	(60,157)	—
Proceeds on disposal of property and equipment	422	1,173
Contract fee prepaid for operating a burial project	(14,400)	—
Advance to business partners	(4,210)	(12,000)
Acquisition of subsidiaries (Note 35)	(259,057)	(121,299)
Investment in a joint venture	—	(30,000)
Interest received	38,937	53,594
Deposit for acquisition of subsidiaries	(33,501)	(293,800)
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(381,434)	(480,108)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 RMB'000	2014 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	208,420	44,950
Repayment of bank borrowings	(88,900)	(49,050)
Capital contribution from non-controlling interest	24,554	—
Repayment to non-controlling interest	(21,396)	—
Interest paid	(8,156)	(4,002)
Dividends paid to non-controlling interests	(58,504)	(40,753)
Dividends paid to owners of the Company	(72,919)	(32,143)
Dividends paid to the then owners prior to a Group's reorganization	—	(159,500)
Proceeds from issue of ordinary shares	—	184,757
Proceeds from exercise of share options	11,761	—
Payment of listing related expenses	—	(10,358)
NET CASH USED IN FINANCING ACTIVITIES	(5,140)	(66,099)
NET DECREASE CASH AND CASH EQUIVALENTS	(19,996)	(247,255)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,296,757	1,544,012
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	1,276,761	1,296,757

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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 provision of burial services, funeral services and auxiliary 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied the following amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (“IASB”) for the first time in the current year.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

The Group has not early applied the following new and revised standards that have been issued but are not yet effective:

IFRS 9	<i>Financial Instruments</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ⁴
Amendments to IAS 1	<i>Disclosure Initiative</i> ⁴
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ⁴
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2012-2014 Cycle</i> ⁴
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ⁴
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ⁴
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁵
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ⁴
Amendments to IAS 7	<i>Disclosure Initiative</i> ⁶
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ⁶

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 2019

⁴ Effective for annual periods beginning on or after 1 January 2016

⁵ Effective for annual periods beginning on or after a date to be determined

⁶ Effective for annual periods beginning on or after 1 January 2017

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

IFRS 9 *Financial Instruments* – *continued*

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

IFRS 9 *Financial Instruments* – *continued*

The directors do not anticipate that the application of IFRS 9 will have a material effect on the Group's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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 of the Company are in the process of evaluating the financial impact on IFRS 15, which may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* - *continued*

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* give some guidance on how to apply the concept of materiality in practice.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the amounts recognised in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

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

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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 acquiree and the equity interests issued by the Group in exchange for control of the acquiree. 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 acquiree 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in joint ventures – continued

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment – *continued*

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – continued

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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 land costs, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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 trade receivable, 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).

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – continued

Financial liabilities and equity instruments – continued

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

4. 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 and intangible assets

Determining whether goodwill and intangible assets is impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets 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, 2015, the carrying amounts of goodwill are approximately RMB267,661,000 (2014: RMB94,459,000). 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, 2015, the carrying amounts of property and equipment are approximately RMB361,314,000 (2014: RMB271,304,000). No impairment indicators on property and equipment were identified during the year ended December 31, 2015 and 2014. Details of movement are disclosed in Note 15.

As at December 31, 2015, the carrying amounts of intangible assets are approximately RMB 14,388,000 (2014: RMB13,709,000). No impairment was recorded for the intangible assets during the year ended December 31, 2015 and 2014. Details of movement are disclosed in Note 16.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

4. 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, 2015, the carrying amounts of deferred income are approximately RMB 214,144,000 (2014: RMB179,642,000), 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, 2015 and 2014.

5. 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, 2015.

The capital structure of the Group consists of net debt, which includes borrowings, loan from non-controlling interests, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

	2015 RMB'000	2014 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>1,332,645</u>	<u>1,335,862</u>
Financial liabilities		
Amortized cost	<u>364,947</u>	<u>217,805</u>

b. Financial risk management objectives and policies

The Group's major financial instruments include restricted deposits, bank balances and cash, trade and other receivables, trade and other payables, 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, trade receivable, other receivables and other payables are denominated in foreign currencies, which expose the Group to foreign currency risk. The management monitors foreign currency exposure by closely monitoring the movement of foreign currency rates and control currency exposure position.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities as at December 31, 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
Assets		
United States Dollars ("US\$")	30,781	28,879
Hong Kong Dollars ("HK\$")	<u>72,522</u>	<u>138,474</u>
Liabilities		
HK\$	<u>325</u>	<u>193</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. 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.

	2015 RMB'000	2014 RMB'000
If RMB strengthens against US\$	<u>(1,154)</u>	<u>(1,083)</u>
If RMB strengthens against HK\$	<u>(2,707)</u>	<u>(5,186)</u>

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, borrowings and loan from non-controlling interest.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, restricted deposits and borrowings.

The Group currently 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. 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, 2015 would have been increased/decreased by approximately RMB4,895,000 (2014: RMB4,952,000).

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, 2015 would have been decreased/increased by approximately RMB628,000 (2014: RMB131,000).

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 trade and 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, 2015, approximately 58% (2014: 58%) of the bank balances were deposited at 2 banks (2014: 1 bank).

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.

At December 31, 2015, the Company recorded entrusted loans amounting to RMB16,210,000 to business partners of the Company for a future project and future acquisition (2014: RMB12,000,000). The entrusted loans should be paid back within 12 months. The Group's management has assessed the financial position of the counterparties and believed that the receivables are fully recoverable.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – 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, 2015 and 2014.

	Weighted average interest rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2015						
Trade and other payables	—	159,304	—	—	159,304	159,304
Loan from non-controlling interest – interest-bearing	6.00	—	40,463	—	40,463	38,173
Borrowings – variable rate	5.05	71,033	93,579	25,054	189,666	167,470
		<u>230,337</u>	<u>134,042</u>	<u>25,054</u>	<u>389,433</u>	<u>364,947</u>

	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
		<u>182,464</u>	<u>40,921</u>	<u>223,385</u>	<u>217,805</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

6. 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.

7. SEGMENT INFORMATION

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

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

- 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, and production and sale of cremation machines and the related maintenance service.

Segment revenues and results

	Burial services		Sub-total	Funeral services	Auxiliary services	Segment total	Eliminated	Total
	Cemetery							
	Sale of burial plots	maintenance services						
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
For the year ended December 31, 2015								
External Sales	944,174	16,002	960,176	140,124	7,660	1,107,960	—	1,107,960
Inter-segment sales	—	—	—	—	4,692	4,692	(4,692)	—
Total	944,174	16,002	960,176	140,124	12,352	1,112,652	(4,692)	1,107,960
Segment profit	758,079	6,862	764,941	96,156	602	861,699	(1,900)	859,799
Other income and gains, net								63,183
Distribution and selling expenses								(205,442)
Administrative expenses								(250,135)
Finance costs								(7,799)
Profit before taxation								<u>459,606</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

7. SEGMENT INFORMATION – *continued*

Segment revenues and results – *continued*

	Burial services					Total RMB'000
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000	Sub-total RMB'000	Funeral services RMB'000	Auxiliary services 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						<u>341,208</u>

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. 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 the provision of burial services, funeral services and auxiliary services in the PRC based on where goods are sold or services are rendered, and substantially all of the Group's identifiable assets and liabilities are located in the PRC.

Information about major customers

No single customer accounted for 10% or more of the Group's revenue during the years ended December 31, 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

7. 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:

	2015 RMB'000	2014 RMB'000
Burial Services:		
Sale of burial plots		
Customized burial (note a)	214,468	187,674
Artistic burial (note b)	357,016	244,616
Traditional burial	232,944	120,730
Lawn burial (note c)	49,590	41,085
Green burial (note d)	12,860	6,095
Indoor burial	11,804	8,772
Other burial-related services (note e)	65,492	51,554
Cemetery maintenance services	16,002	13,045
Subtotal	960,176	673,571
Funeral services	140,124	109,836
Auxiliary services	12,352	11,685
Inter-segments elimination	(4,692)	—
	1,107,960	795,092

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 gravemarkers.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

7. 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, Jinzhou City Maoshan Anling, Guanlingshan Cultural Cemetery, Wuyuan Wanshoushan Cemetery and Anyang Tianshouyuan Cemetery, 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.

8. OTHER INCOME AND GAINS, NET

	2015 RMB'000	2014 RMB'000
Other income:		
Interest income on bank deposits	39,329	54,491
Government grants (note)	15,101	—
Management service income	3,984	—
	<u>58,414</u>	<u>54,491</u>
Net gains and losses:		
Net gain on disposal of property and equipment	212	387
Donation	(1,039)	(1,525)
Exchange gain	5,624	4,433
Others	(28)	342
	<u>4,769</u>	<u>3,637</u>
Other income and gains, net	<u><u>63,183</u></u>	<u><u>58,128</u></u>

Note: The government grants represented the amount received from the local government by certain operating subsidiaries of the Group to encourage the economic contributions to society without any specific conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

9. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on borrowings wholly repayable within five years:		
– bank loans	4,363	2,867
– loans from non-controlling interests (Note 31)	3,348	3,200
– loans from an independent third party	88	12
Less: Capitalized interest (note)	—	(2,400)
Total finance costs	<u>7,799</u>	<u>3,679</u>

Note: The capitalized borrowing costs were calculated by applying the borrowing rate of 6.0% per annum to expenditure on qualifying assets.

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2015 RMB'000	2014 RMB'000
Staff costs, including Directors' remuneration (Note 11)		
Salaries, wages, bonus and other benefits	186,400	156,449
Retirement benefits scheme contributions (Note 38)	13,339	9,219
Share based payments expenses	29,370	20,169
Total staff costs	<u>229,109</u>	<u>185,837</u>
Auditors' remuneration	3,800	3,500
Depreciation of property and equipment	25,292	18,813
Cost of inventories recognized as an expense	138,738	83,994
Amortization of intangible assets and prepaid lease payment (included in administrative expenses)	848	411
Amortization of cemetery assets (included in cost of sales and services)	29,484	13,191
Operating lease rentals	<u>10,488</u>	<u>9,017</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2015 RMB'000	2014 RMB'000
Directors' fees	8,880	9,060
Other emoluments		
Discretionary bonus	700	600
Contributions to retirement benefits scheme	152	152
Share based payments expenses	3,902	2,546
	<u>13,634</u>	<u>12,358</u>

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

For the year ended December 31, 2015

	Directors' fees RMB'000	Discretionary bonus RMB'000	Contributions to retirement scheme RMB'000	Share based payment benefits expenses RMB'000	Total RMB'000
Executive Directors					
Wang Jisheng (Chief Executive)	3,600	350	76	1,619	5,645
Bai Xiaojiang	3,600	350	76	1,619	5,645
Tan Leon Li-an	240	—	—	111	351
Non-Executive Directors					
Huang James Chih-Cheng	240	—	—	111	351
Lin Hung Ming	240	—	—	111	351
Lu Hesheng	240	—	—	111	351
Independent Non-Executive Directors					
Chen Qunlin	—	—	—	55	55
Luo Zhuping	240	—	—	55	295
Ho Man	240	—	—	55	295
Wu Jianwei	240	—	—	55	295
	<u>8,880</u>	<u>700</u>	<u>152</u>	<u>3,902</u>	<u>13,634</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 scheme RMB'000	Share based payment benefits expenses RMB'000	Total RMB'000
Executive Directors					
Wang Jisheng (Chief Executive)	3,600	300	76	1,147	5,123
Bai Xiaojiang	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

The five highest paid individuals of the Group included two directors (2014: two) for the year ended December 31, 2015. The remunerations of the remaining three (2014: three) individuals during the year are as follows:

	Year ended December 31,	
	2015 RMB'000	2014 RMB'000
Employees		
Salaries, wages and other benefits	4,300	4,300
Discretionary bonus	660	650
Contributions to retirement benefits scheme	151	151
Share based payments expenses	2,834	2,284
	7,945	7,385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

The emolument of the five highest paid individuals fell within the following bands:

	Number of individuals	
	2015 RMB'000	2014 RMB'000
HK\$2,000,001-HK\$2,500,000	—	1
HK\$2,500,001-HK\$3,000,000	1	—
HK\$3,000,001-HK\$3,500,000	1	1
HK\$3,500,001-HK\$4,000,000	1	1
HK\$6,500,001-HK\$7,000,000	2	2
	<u>5</u>	<u>5</u>

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.

12. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
PRC Enterprise Income Tax ("PRC EIT")		
Current year	103,752	80,688
Over provision in prior years	(7,824)	(21,883)
Deferred tax (Note 20)	(1,491)	(2,656)
	<u>94,437</u>	<u>56,149</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

12. INCOME TAX EXPENSE – *continued*

The tax charge for the years ended December 31, 2015 and 2014 can be reconciled to the profit before taxation as follows:

	2015 RMB'000	2014 RMB'000
Profit before taxation	459,606	341,208
Tax at the PRC EIT rate of 25%	114,901	85,302
Tax effect of expenses not deductible for tax purpose	1,312	1,025
Tax effect of income not taxable for tax purpose	(8,533)	(12,483)
Tax effect of different tax rates	(2,899)	(2,506)
Tax effect of tax losses not recognized	520	437
Tax effect of losses of offshore entities not recognized	10,240	6,257
Utilization of tax losses previously not recognized	(2,324)	—
Decrease in opening deferred tax liability resulting from an decrease in applicable tax effect	(2,527)	—
Tax deduction on exercised share options (note)	(8,429)	—
Over provision in prior years	(7,824)	(21,883)
Income tax expense for the year	<u>94,437</u>	<u>56,149</u>

Note: During the year ended December 31, 2015, pursuant to the relevant tax regulation, the relevant tax authority has agreed that the share options granted by the Company to and exercised by the employees of one of the Group's subsidiaries in the PRC can form a base for claiming tax deduction in its PRC EIT.

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 and 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. In September 2015, Chongqing Baitayuan, a 60% owned subsidiary of the Group, which is located in specific province of Western China and engaged in specific encouraged industry also enjoys a preferential tax rate of 15% under EIT Law. The preferential tax rate for Chongqing Anle Services, Chongqing Anle Funeral Services and Chongqing Baitayuan is effective until 2020.

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, 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

13. DIVIDENDS

	At December 31,	
	2015 RMB'000	2014 RMB'000
Dividends for ordinary shareholder of the Company recognized as distribution during the year		
2015 Interim - HK2.39 cents (2014: 2014 interim dividend - HK1.95 cents) per share	40,496	32,143
2014 Final - HK1.95 cents (2014: 2013 final Dividend nil) per share	32,423	—
	<u>72,919</u>	<u>32,143</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2015 of HK2.39 cents per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

14. 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:

	2015	2014
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	<u>284,444</u>	<u>230,372</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,079,149,479	2,073,150,685
Effect of dilutive potential ordinary shares:		
Share options	<u>51,931,665</u>	<u>37,619,750</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,131,081,144</u>	<u>2,110,770,435</u>

The computation of diluted earnings per share for 2015 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

15. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2014	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	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
Additions	6,170	5,804	7,658	5,992	18,509	44,133
Acquired on acquisition of subsidiaries (Note 35)	41,641	—	4,613	2,662	22,463	71,379
Transfer	64,022	2,067	9,307	255	(75,651)	—
Disposals	—	—	(992)	(1,625)	—	(2,617)
At December 31, 2015	249,353	16,926	47,696	39,360	110,435	463,770
DEPRECIATION						
At January 1, 2014	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
Provided for the year	11,957	1,736	5,853	5,746	—	25,292
Eliminated on disposals	—	—	(862)	(1,545)	—	(2,407)
At December 31, 2015	51,535	6,687	22,265	21,969	—	102,456
CARRYING VALUES						
At December 31, 2014	97,942	4,104	9,836	14,308	145,114	271,304
At December 31, 2015	197,818	10,239	25,431	17,391	110,435	361,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

15. 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%

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

As at December 31, 2015, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB83,150,000 (2014: RMB12,009,000) had not been obtained.

16. INTANGIBLE ASSETS

	Computer software RMB'000	Favorable lease payment RMB'000	License for provision of funeral services RMB'000	Total RMB'000
COST				
At January 1, 2014	2,456	2,076	11,808	16,340
Additions	422	—	—	422
Acquired on acquisition of subsidiaries	158	—	—	158
At December 31, 2014	3,036	2,076	11,808	16,920
Additions	1,052	—	—	1,052
Acquired on acquisition of subsidiaries (Note 35)	157	—	—	157
Disposals	(12)	—	—	(12)
At December 31, 2015	4,233	2,076	11,808	18,117
AMORTISATION				
At January 1, 2014	790	2,076	—	2,866
Provided for the year	345	—	—	345
At December 31, 2014	1,135	2,076	—	3,211
Provided for the year	530	—	—	530
Disposals	(12)	—	—	(12)
At December 31, 2015	1,653	2,076	—	3,729
CARRYING VALUES				
At December 31, 2014	1,901	—	11,808	13,709
At December 31, 2015	2,580	—	11,808	14,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

16. 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 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, 2015 and 2014, 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, 2015, 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 13% (2014: 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% (2014: 5%) 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.

17. PREPAID LEASE PAYMENTS

Prepaid lease payments acquired for the purpose of building funeral parlours and the related auxiliary facilities are accounted separately from cemetery assets. The prepaid lease payments have definite useful lives and amortized on a straight-line basis over the lease terms. During the year ended December 31, 2015, the prepaid lease payments are released to profit or loss as expenses amounting RMB318,000 (2014: RMB66,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

18. CEMETERY ASSETS

	Land costs RMB'000	Landscape facilities RMB'000	Development cost RMB'000	Total RMB'000
COST				
At January 1, 2014	337,509	51,939	109,180	498,628
Additions	2,436	9,182	10,440	22,058
Acquired on acquisition of subsidiaries	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
Additions	4,313	31,484	5,751	41,548
Acquired on acquisition of subsidiaries (Note 35)	224,836	76,431	127,890	429,157
Transfer to inventories	(17,815)	(1,682)	(3,876)	(23,373)
At December 31, 2015	716,531	180,314	249,696	1,146,541
AMORTIZATION				
At January 1, 2014	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
Provided for the year	15,418	9,879	4,187	29,484
Eliminated on transfer	(1,207)	(35)	(593)	(1,835)
At December 31, 2015	51,814	28,836	17,560	98,210
CARRYING VALUES				
At December 31, 2014	467,594	55,089	105,965	628,648
At December 31, 2015	664,717	151,478	232,136	1,048,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

18. CEMETERY ASSETS – *continued*

	2015 RMB'000	2014 RMB'000
The Group's land costs included in cemetery assets payment comprises:		
Land Costs in the PRC for which development had not yet commenced:		
– Medium-term lease	554,973	368,796
– Long-term lease	109,744	98,798
	<u>664,717</u>	<u>467,594</u>

The land costs mainly represents prepaid lease payments having definite useful lives which are amortized on a straight-line basis over the lease terms.

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.

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 cost is provided on a straight-line basis over the estimated useful life (same as land costs over the lease terms).

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

19. RESTRICTED DEPOSITS

Restricted deposits represent the deposits which are placed in designed joint named bank accounts with local funeral associations and carry variable-rate interest by reference to the People's Bank of China benchmark rate. In accordance with the requirements of local authorities, the balances are provided based on certain percentages of cemetery sales of certain subsidiaries for the use of cemetery maintenance. The restricted deposits can be drawn annually with a cap based on the certain percentages of cemetery maintenance costs incurred in the preceding year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

20. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the year ended December 31, 2015:

	Deferred income RMB'000	Tax losses RMB'000	Payroll and welfare payable RMB'000	Fair value adjustment RMB'000 Note	Total RMB'000
At January 1, 2014	19,463	616	11,014	(29,946)	1,147
Acquisition of subsidiaries	—	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)
Acquisition of subsidiaries (Note 35)	—	327	1,000	(29,696)	(28,369)
Credit (charge) to profit or loss	3,356	3,365	(12,248)	7,018	1,491
At December 31, 2015	23,429	4,166	1,928	(90,042)	(60,519)

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,	
	2015 RMB'000	2014 RMB'000
Deferred tax assets	29,523	33,723
Deferred tax liabilities	(90,042)	(67,364)
	(60,519)	(33,641)

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

The Group has unused tax losses of approximately RMB22,856,000 (2014: RMB13,243,000) as at December 31, 2015. Deferred tax assets have been recognized in respect of approximately RMB16,664,000 (2014: RMB1,896,000) of such losses as at December 31, 2015. No deferred tax assets have been recognized in respect of the remaining approximately RMB6,192,000 (2014: RMB11,347,000) as at December 31, 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

20. DEFERRED TAXATION – *continued*

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB656,361,000 (2014: RMB374,122,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. INVESTMENT IN A JOINT VENTURE

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Cost of investments in a joint venture		
Fangshan Cemetery	<u>30,000</u>	<u>30,000</u>

Pursuant to the joint venture arrangement 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, 2015, the joint venture is still at development stage and no significant profit or loss has been recognized for the joint venture. The joint venture will be engaged in sale of burial plots in the future.

The summarized financial information of the Group's joint venture accounted for using the equity method are set out below:

	At December 31,	
	2015	2014
	RMB'000	RMB'000
Current assets	21,653	29,817
Non-current assets	8,543	183
Current liability	<u>519</u>	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

22. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY/SUBSIDIARIS

	2015 RMB'000	2014 RMB'000
Deposit for acquisition of subsidiaries		
– Guanlingshan Cultural Cemetery (note a)	—	279,300
– Zaozhuang Shanting Xingtai Funeral Service Co.,Ltd (note b)	38,001	4,500
– Wuyuan Wanshoushan Cemetery (note a)	—	10,000
	38,001	293,800

Notes:

- a. The Group completed acquisition of Guanlingshan Cultural Cemetery and Wuyuan Wanshoushan Cemetery on January 9, 2015 and February 13, 2015, respectively. Therefore, deposit paid for acquisition of these two subsidiaries in the year 2014, amounting to RMB289,300,000, has been transferred out.
- b. In December 2014, the Group entered into an agreement to acquire 100% equity interest in Zaozhuang Shanting Xingtai Funeral Service 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 shall acquire 100% equity interest in Shanting Xingtai for a cash consideration of RMB 5,000,000, and the Group shall pay an aggregate amount of RMB 54,800,000 to the existing shareholders of Shanting Xingtai to settle the outstanding indebtedness owed to them by Shanting Xingtai. Up to December 31, 2015 the Group had advanced to the shareholders of Shanting Xingtai approximately RMB38,001,000 as a deposit for the acquisition.

According to the agreements for acquisition of Shanting Xingtai, the consideration or deposit paid is refundable if the other parties of the contract cannot fulfill their obligations pursuant to the agreement terms.

The principal activity of Shanting Xingtai comprises sales of burial plots, columbarium and products for provision of burial service and funeral service.

23. OTHER LONG-TERM ASSETS

Other long-term assets mainly represent contract fee prepaid to a third party in accordance with a burial management service agreement, pursuant to which the Group entitles to provide burial management, operation and maintenance services for a burial project owned by the third party. The prepayments are amortized over the agreed service period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

24. GOODWILL

The movement of goodwill as at December 31, 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
COST		
At January 1	94,459	28,102
Arising on acquisition of subsidiaries (Note 35)	173,202	66,357
	<u>267,661</u>	<u>94,459</u>

The carrying amounts of goodwill as at December 31, 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
Haigang Fu Shou Yuan	9,595	9,595
Jinzhou Maoshan Anling	3,738	3,738
Henan Fu Shou Yuan	14,769	14,769
Chongqing Baitayuan	47,458	47,458
Meilin Century Cemetery	18,899	18,899
Guanlingshan Cultural Cemetery (Note 35)	47,245	—
Wuyuan Wanshoushan Cemetery (Note 35)	36,107	—
Anyang Tianshouyuan Cemetery (Note 35)	2,425	—
Changzhou Qifengshan Cemetery (Note 35)	87,425	—
	<u>267,661</u>	<u>94,459</u>

For the purposes of impairment testing, goodwill have been allocated to each of the individual CGUs, comprising nine subsidiaries in the burial serveries segment. During the years ended December 31, 2015 and 2014, the management of the Group determines that there are no impairments of any of its CGUs containing goodwill.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

24. GOODWILL – *continued*

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

(a) Haigang Fu Shou Yuan

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13% (2014: 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 13% (2014: 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 Fu Shou Yuan

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13% (2014: 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 13% (2014: 15%). 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) Meilin Century Cemetery

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13% (2014: 15%). Management estimates that the land will be fully developed and sold out in the following ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

24. GOODWILL – *continued*

(f) Guanlingshan Cultural Cemetery

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13%. 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.

(g) Wuyuan Wanshoushan Cemetery

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13%. 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.

(h) Anyang Tianshouyuan Cemetery

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13%. 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.

(i) Changzhou Qifengshan Cemetery

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13%. 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.

25. INVENTORIES

	2015	2014
	RMB'000	RMB'000
Burial Plots	237,530	149,957
Tombstone	81,063	55,052
Others	20,929	10,724
	<u>339,522</u>	<u>215,733</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

26. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade Receivable	9,622	—
Other receivables comprise:		
Prepayments and rental deposits on properties	1,853	1,443
Staff advances	1,420	1,380
Entrusted loans (note)	16,210	12,000
Others	5,741	5,260
	<u>34,846</u>	<u>20,083</u>

Note: The Group has advanced loans amounting to RMB14,400,000 (2014: RMB12,000,000) to a business partner for a future project with the Group and advanced loans of RMB1,810,000 to an entity which the Group intended to acquire 100% equity interest in as set out in Note 22 for its working capital purpose.

The aging analysis of trade receivable presented based on the invoice date at the end of reporting period is as follows:

	2015 RMB'000	2014 RMB'000
181 - 360 days	9,622	—

Trade receivable represents the receivable from a bulk sales customer. In determining the recoverability of the trade receivable, the Group reassesses any change in the credit quality of the trade receivable since the credit was granted and up to the reporting date. After reassessment, the Directors of the Company are of the view that no allowance is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

27. BANK BALANCES AND CASH

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

	2015	2014
Interest rate per annum		
– RMB	0.35%-4.25%	0.35%-4.80%
– HK\$	0.01%	0.01%
– US\$	0.05%	0.10%

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

	2015	2014
	RMB'000	RMB'000
HK\$	72,280	138,208
US\$	30,781	28,879
	<u>103,061</u>	<u>167,087</u>

28. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	RMB'000
Trade payables	99,405	92,110
Other payables comprise:		
Advances and deposits from customers	31,221	45,879
Payables for acquisition of property and equipment	1,380	5,664
Salary, welfare and bonus payables	85,273	77,245
Other accrued expenses	13,909	8,952
Consideration for acquisition of subsidiaries	11,140	12,196
Others	35,580	16,391
	<u>277,908</u>	<u>258,437</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

28. TRADE AND OTHER PAYABLES – *continued*

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

	2015 RMB'000	2014 RMB'000
0 - 90 days	41,981	32,748
91 - 180 days	19,025	12,009
181 - 360 days	19,875	23,277
Over 361 days	18,524	24,076
	<u>99,405</u>	<u>92,110</u>

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

29. BORROWINGS

	2015 RMB'000	2014 RMB'000
Bank borrowings		
– Secured by the Group's assets	—	29,950
– Secured by the Group's equity interest in subsidiaries	122,520	—
– Guaranteed by an independent third party	5,000	5,000
– Unsecured	39,950	—
	<u>167,470</u>	<u>34,950</u>
The carrying amounts of the above borrowings are repayable*:		
Within one year	63,450	34,950
More than one year, but not exceeding two years	20,500	—
More than two years but not more than five years	59,660	—
More than five years	23,860	—
	<u>167,470</u>	<u>34,950</u>
Less: amounts due within one year shown under current liabilities	<u>(63,450)</u>	<u>(34,950)</u>
Amounts shown under non-current liabilities	<u>104,020</u>	<u>—</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The bank borrowings carried interest at 4.60% to 6.61% per annum (2014: 6.00% to 7.20%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

29. BORROWINGS – *continued*

The carrying amounts of the Group's assets that were secured against the Group's borrowings are set out below:

	2015 RMB'000	2014 RMB'000
Net book value of the Group's equity interest in a subsidiary	109,698	—
Buildings	—	5,957
Total	<u>109,698</u>	<u>5,957</u>

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,	
	2015 RMB'000	2014 RMB'000
Carrying amount analyzed as:		
Amounts shown under current liabilities	15,694	13,097
Amounts shown under non-current liabilities	198,450	166,545
	<u>214,144</u>	<u>179,642</u>

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, 2015, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB16,002,000 (2014: RMB13,045,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

31. LOAN FROM NON-CONTROLLING INTERESTS

	2015 RMB'000	2014 RMB'000
Shandong World Trade Centre (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
	<u>38,173</u>	<u>59,569</u>

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

The loan from Shandong World Trade Centre of 38,173,000 (2014: RMB38,173,000) as at December 31, 2015, carried fixed interest rates at 6% (2014: 7.8%) 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 and fully repaid during this year.

As at December 31, 2015 and 2014, Shandong World Trade Centre has provided a written confirmation to the Group in confirming that it shall not demand repayment of the amount due to it within the twelve months from each of the year end. Accordingly, the amount is shown under non-current as at December 31, 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

32. SHARE CAPITAL

	Number of shares	Amount US\$	
Ordinary shares of US\$0.01 each			
Authorized:			
At December 31, 2015, December 31, 2014 and January 1, 2014	<u>20,000,000,000</u>	<u>200,000,000</u>	
Issued and fully paid:			
	Number of shares	Amount US\$	Shown in the Financial Information as RMB'000
At January 1, 2014	2,000,000,000	20,000,000	121,158
Issue of shares by exercise of over-allotment option (note)	<u>75,000,000</u>	<u>750,000</u>	<u>4,531</u>
At December 31, 2014	2,075,000,000	20,750,000	125,689
Exercise of share options (Note 34)	<u>14,293,446</u>	<u>142,934</u>	<u>912</u>
At December 31, 2015	<u>2,089,293,446</u>	<u>20,892,934</u>	<u>126,601</u>

Note: 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 in relation to the initial public offering in December 2013.

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

33. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

33. RESERVES – *continued*

Special reserve

Special reserve of RMB5,000,000 represents deemed contribution from the equity holders pursuant to a Group's reorganization.

Special reserve of RMB 79,667,000 represents the amounts due to founding shareholders waived by such founding shareholders prior to the Company's listing, which was accounted for 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.

34. SHARE BASED COMPENSATION

Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on March 10, 2013 for the primary purpose of motivating participants to optimise their performance and efficiency, and retaining the guarantees 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 Group under the following terms:

- (1) All options granted are at an exercise price of HK\$1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

34. 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, 2015:

	Number of options				Options outstanding as at December 31, 2015
	Options balance outstanding as at January 1, 2015	Issued during the year	Exercised during the year	Forfeited during the year	
Directors					
Wang Jisheng	3,453,452	—	—	—	3,453,452
Bai Xiaojiang	3,453,452	—	—	—	3,453,452
	<u>6,906,904</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,906,904</u>
Senior Management	11,876,037	—	1,390,000	—	10,486,037
Other employees	38,830,228	—	12,903,446	—	25,926,782
Total	<u>57,613,169</u>	<u>—</u>	<u>14,293,446</u>	<u>—</u>	<u>43,319,723</u>
Exercisable at December 31	<u>—</u>				<u>14,513,138</u>
Weighted average exercise price (HK\$)	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>

The estimated fair value of share options granted was approximately RMB37,849,413, which was calculated using the Binomial model. The Group recognised the total expense of approximately RMB11,825,000 (2014: RMB15,784,000) for the year ended December 31, 2015 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme

The Company adopted a 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”).

Granted on August 5, 2014

On August 5, 2014, the Company granted 42,000,000 share options (the “Share Option A”) to the Directors and employees of the Group under the following terms:

- (1) All Share Option A granted are at an exercise price of HK\$ 4.14 per share.
- (2) All Share Option A granted to the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme - *continued*

Granted on August 5, 2014 - *continued*

- (3) All Share Option A 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.

The fair value of the Options A granted to Directors and employees at grant date are HK\$ 1.27 per share and HK\$ 0.78 per share respectively, which is determined using a binomial option pricing model. The inputs into the model were as follows:

	Employees	Directors
Share price	HK\$4.14	HK\$4.14
Exercise price	HK\$4.14	HK\$4.14
Expected volatility	24.4%	24.4%
Option life	4 years	10 years
Dividend yield	1%	1%
Risk-free interest rate	1.1365%	2.0520%
Forfeiture rate	5%	—

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme - *continued*

Granted on March 19, 2015

On March 19, 2015, the Company granted 50,000,000 share options (the “Share Option B”) to the Directors and employees of the Group under the following terms:

- (1) All Share Option B granted are at an exercise price of HK\$ 3.126 per share.
- (2) All Share Option B granted can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From March 19, 2017 to March 18, 2019	50% of the total number of shares underlying the options granted.
From March 19, 2018 to March 18, 2019	50% of the total number of shares underlying the options granted.

The fair value of the Option B at grant date is HK\$0.47 per share, representing RMB 18,020,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK\$3.10
Exercise price	HK\$3.126
Expected volatility	21.43%
Option life	4 years
Dividend yield	1.67%
Risk-free interest rate	1.08%
Forfeiture rate	4.20%

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity on March 19, 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

34. SHARE BASED COMPENSATION – continued

Share Option Scheme - continued

Set out below are details of movements of the outstanding in relation to Share Option A and Share Option B granted under the Share Option Scheme during the year ended December 31, 2015:

	Date of grant	Exercise price per Share (HK\$)	Number of options				Options outstanding as at December 31, 2015
			Options outstanding as at January 1, 2015	Issued during the year	Exercised during the year	Forfeited during the year	
Directors							
Bai Xiaojiang	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	March 19, 2015	3.126	—	3,000,000	—	—	3,000,000
Wang Jisheng	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	March 19, 2015	3.126	—	3,000,000	—	—	3,000,000
Tan Leon Li-an	August 5, 2014	4.14	400,000	—	—	—	400,000
Lin Hung Ming	August 5, 2014	4.14	400,000	—	—	—	400,000
Lu Hesheng	August 5, 2014	4.14	400,000	—	—	—	400,000
	March 19, 2015	3.126	—	500,000	—	—	500,000
Huang James Chih-Cheng	August 5, 2014	4.14	400,000	—	—	—	400,000
Chen Qunlin	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Luo Zhuping	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Ho Man	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
Wu Jianwei	August 5, 2014	4.14	200,000	—	—	—	200,000
	March 19, 2015	3.126	—	300,000	—	—	300,000
			<u>6,400,000</u>	<u>7,700,000</u>			<u>14,100,000</u>
Senior Management	August 5, 2014	4.14	7,700,000	—	—	(400,000)	7,300,000
	March 19, 2015	3.126	—	9,100,000	—	—	9,100,000
Other employees	August 5, 2014	4.14	27,900,000	—	—	—	27,900,000
	March 19, 2015	3.126	—	33,200,000	—	—	33,200,000
Total			<u>42,000,000</u>	<u>50,000,000</u>	<u>—</u>	<u>(400,000)</u>	<u>91,600,000</u>
Exercisable at December 31			<u>—</u>				<u>—</u>
Weighted average exercise price (HK\$)			<u>4.14</u>	<u>3.126</u>	<u>—</u>	<u>4.14</u>	<u>3.59</u>

The Group recognized that total expense of approximately RMB17,545,000 (2014: RMB4,385,000) for the year in relation to Share Option A and Share Option B granted by the Company under Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of 70% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd. (Guanlingshan Cultural Cemetery)

On November 13, 2014, Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership), a wholly-owned subsidiary of the Group, entered into an agreement with all equity holders of Guanlingshan Cultural Cemetery, pursuant to which Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership) agree to acquire an aggregate of 70% equity interest in the Guanlingshan Cultural Cemetery for a cash consideration of RMB279,300,000. Guanlingshan Cultural Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on January 9, 2015.

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

	RMB'000
Property and equipment	44,322
Intangible assets	119
Prepaid lease payment	4,740
Cemetery assets	248,944
Inventories	66,100
Bank balances and cash	254,644
Trade and other payables	(276,000)
Borrowings	(5,000)
Deferred tax	(6,362)
	<hr/>
	331,507
Non-controlling interests	(99,452)
Goodwill	47,245
	<hr/>
Net assets acquired	279,300
	<hr/>
Satisfied by:	
Deposit paid in 2014	279,300
	<hr/>
Cash paid in 2015	—
Less: bank balances and cash acquired	254,644
	<hr/>
Net cash inflow arising on acquisition	<u>(254,644)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(a) Acquisition of 70% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co.,Ltd. (Guanlingshan Cultural Cemetery) – *continued*

The non-controlling interests 30% in Guanlingshan Cultural Cemetery 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 Guanlingshan Cultural Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Guanlingshan Cultural Cemetery. 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.

Included in the profit for the year is profit of approximately RMB23,571,000 which is attributable to Guanlingshan Cultural Cemetery. Revenue for the year includes approximately RMB128,422,000 which is attributable to Guanlingshan Cultural Cemetery.

Had the acquisition of Guanlingshan Cultural Cemetery been effected at the beginning of the year, no additional revenue for the year could have been recognized but the profit for the year could have been decreased by approximately RMB34,000. The proforma 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 at the beginning of the year, nor is it intended to be a projection of future results.

(b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery)

On December 18, 2014, Shanghai Fu Shou Yuan, a wholly-owned subsidiary of the Group, entered into an agreement with all equity holders of Wuyuan Wanshoushan Cemetery, pursuant to which Shanghai Fu Shou Yuan agreed to acquire an aggregate of 75% equity interest in the Wuyuan Wanshoushan Cemetery for a cash consideration of RMB49,339,000. Wuyuan Wanshoushan Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on February 13, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery) – *continued*

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

	RMB'000
Property and equipment	6,359
Prepaid lease payment	537
Cemetery assets	28,209
Inventories	831
Other receivables	738
Bank balances and cash	10
Trade and other payables	(3,570)
Borrowing	(8,000)
Deferred tax	(7,471)
	<hr/>
	17,643
Non-controlling interests	(4,411)
Goodwill	36,107
	<hr/>
Net assets acquired	49,339
	<hr/>
Satisfied by:	
Deposit paid in 2014	10,000
Cash paid upon completion of the acquisition	39,339
	<hr/>
Cash consideration	49,339
	<hr/>
Cash paid upon completion of the acquisition	39,339
Less: bank balances and cash acquired	10
	<hr/>
Net cash outflow arising on acquisition:	<u>39,329</u>

The non-controlling interests 25% in Wuyuan Wanshoushan Cemetery 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 Wuyuan Wanshoushan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Wuyuan Wanshoushan Cemetery. 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. In addition to the above, at the date of the completion of the acquisition of Wuyuan Wanshoushan Cemetery, Wuyuan Wanshoushan Cemetery has certain contingent liabilities which are disclosed more fully in Note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(b) Acquisition of 75% equity interest in Wuyuan Wanshoushan Lingyuan Co., Ltd (Wuyuan Wanshoushan Cemetery) – *continued*

Included in the profit for the year is a loss of approximately RMB912,000, which is attributable to Wuyuan Wanshoushan Cemetery. Revenue for the year includes approximately RMB8,351,000, which is attributable to Wuyuan Wanshoushan Cemetery.

Had the acquisition of Wuyuan Wanshoushan Cemetery been effected at beginning of the year, the revenue for the year could have been increased by approximately RMB761,000 and the profit for the year could have been decreased by approximately RMB26,000, respectively. The proforma 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 at the beginning of the year, nor is it intended to be a projection of future results.

(c) Acquisition of 80% equity interest in Anyang Wulong Civil Service Co., Ltd. (Anyang Tianshouyuan Cemetery)

On May 4, 2015, Shanghai Fu Shou Yuan, a wholly-owned subsidiary of the Group, entered into an agreement with all equity holders of Anyang Tianshouyuan Cemetery, pursuant to which Shanghai Fu Shou Yuan agree to acquire an aggregate of 80% equity interest in the Anyang Tianshouyuan Cemetery for a cash consideration of RMB42,400,000. Anyang Tianshouyuan Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on June 1, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(c) Acquisition of 80% equity interest in Anyang Wulong Civil Service Co., Ltd. (Anyang Tianshouyuan Cemetery) – *continued*

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

	RMB'000
Property and equipment	2,344
Cemetery assets	47,891
Inventories	251
Trade and other payables	(137)
Deferred tax	(380)
	<hr/>
	49,969
Non-controlling interests	(9,994)
Goodwill	2,425
	<hr/>
Net assets acquired	42,400
	<hr/>
Satisfied by:	
Cash consideration	42,400
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	42,400
	<hr/> <hr/>

The non-controlling interests 20% in Anyang Tianshouyuan Cemetery 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 Anyang Tianshouyuan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Anyang Tianshouyuan Cemetery. 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.

Included in the profit for the year is a loss of approximately RMB1,432,000, which is attributable to Anyang Tianshouyuan Cemetery. Revenue for the year includes approximately RMB776,000 which is attributable to Anyang Tianshouyuan Cemetery.

Had the acquisition of Anyang Tianshouyuan Cemetery been effected at the beginning of the year, no additional revenue for the year could have been recognized but the profit for the year could have been decreased by approximately RMB9,000, respectively. The proforma 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 at the beginning of the year, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(d) Acquisition of 80% equity interest in Changzhou Qifengshan International Cemetery Co., Ltd. (Changzhou Qifengshan Cemetery)

On October 18, 2015, Shanghai Fu Shou Yuan, a wholly-owned subsidiary of the Group, entered into an agreement with all equity holders of Changzhou Qifengshan Cemetery, pursuant to which Shanghai Fu Shou Yuan acquires an aggregate of 80% equity interest in the Changzhou Qifengshan Cemetery for a cash consideration of RMB184,000,000. Changzhou Qifengshan Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on December 1, 2015.

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

	RMB'000
Property and equipment	18,354
Intangible assets	38
Prepaid lease payment	1,896
Cemetery assets	104,113
Other receivable	91
Inventories	18,136
Bank balances and cash	2,724
Trade and other payables	(10,452)
Deferred tax	(14,156)
	<hr/>
	120,744
Non-controlling interests	(24,169)
Goodwill	87,425
	<hr/>
Net asset acquired	184,000
	<hr/>
Satisfied by:	
Consideration paid	172,860
Less: bank balances and cash acquired	2,724
	<hr/>
Net cash outflow arising on acquisition	170,136
	<hr/> <hr/>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

35. ACQUISITION OF SUBSIDIARIES – *continued*

(d) Acquisition of 80% equity interest in Changzhou Qifengshan International Cemetery Co., Ltd. (Changzhou Qifengshan Cemetery) – *continued*

The non-controlling interests 20% in Changzhou Qifengshan Cemetery 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 Changzhou Qifengshan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Changzhou Qifengshan Cemetery. 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.

Included in the profit for the year is a loss of approximately RMB120,000 attributable to Changzhou Qifengshan Cemetery. Revenue for the year includes approximately RMB867,000 is attributable to Changzhou Qifengshan Cemetery.

Had the acquisition of Changzhou Qifengshan Cemetery been effected at the beginning of the year, the revenue for the year could have been increased by approximately RMB20,653,000 and the profit for the year could have been decreased by approximately RMB4,222,000. The proforma 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 at the beginning of the year, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

36. 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 which fall due as follows:

	2015	2014
	RMB'000	RMB'000
Within one year	5,925	6,448
In the second to fifth years inclusive	6,017	5,129
After five years	64	73
	12,006	11,650

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

37. CAPITAL COMMITMENTS

	2015	2014
	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	41,486	26,300
– authorized but not yet contracted for	52,843	30,204
	94,329	56,504
Capital expenditure in respect of the acquisition of subsidiaries:		
– contracted for but not provided in the consolidated financial statements	21,799	85,300



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

38. RETIREMENT BENEFITS SCHEME

The Group participates in a Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Ordinance 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 RMB13,339,000 for the year ended December 31, 2015(2014: RMB9,219,000), represent contributions paid and/or payable to the schemes by the Group for the years ended December 31, 2015 and 2014.

39. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel

The remuneration of Directors, who are also key management, is disclosed in Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

40. DETAILS OF SUBSIDIARIES

The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2015 and 2014 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		Principal activities
				At December 31,		
				2015 %	2014 %	
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 Group 重慶福壽園集團有限公司	PRC	January 18, 2011	RMB89,940,896	100	100	Investment holding
Shanghai Fu Shou Yuan 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 Fu Shou Yuan 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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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		Principal activities
				At December 31,		
				2015 %	2014 %	
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 福柳企業管理諮詢(上海)有限公司	PRC	January 27, 2011	RMB5,000,000	100	100	Investment holding
Chongqing Fu Shou Yuan Shareholding Investment Corporation (Limited Partnership) 重慶福壽園股權投資企業(有限合夥)	PRC	November 10, 2010	RMB52,138,207	100	100	Investment holding
Nanchang Hongfu 南昌洪福人文紀念有限責任公司 (note (c))	PRC	November 17, 2009	RMB140,000,000	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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		Principal activities
				At December 31,		
				2015 %	2014 %	
Xiamen Huaixiang Condolence Services Company Limited 廈門市懷祥禮儀服務有限公司	PRC	December 31, 2012	RMB1,500,000	90	90	Provision of funeral services
Fu Shou Yuan Environmental Protection Equipment Company Limited 福壽園環保機械製造有限公司	PRC	November 20, 2012	RMB10,000,000	100	100	Manufacturing of cremation devices
Shandong Fu Shou Yuan 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 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
Haigang Fu Shou Yuan (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 Fu Shou Yuan Environmental Protection Equipment Company Limited 上海福壽園環保設備有限公司	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	RMB 1,600,000	51	51	Sales of agricultural products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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		Principal activities
				At December 31,		
				2015 %	2014 %	
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
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 重慶白塔園殯葬開發有限公司	PRC	September 8, 1997	RMB13,405,700	60	60	Provision of burial service 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	100	Investment holding
Nanchang Fu Shou Yuan Funeral Co., Ltd 南昌福壽園殯儀有限責任公司	PRC	June 8, 1999	RMB32,730,000	50.89	50.89	Provision of burial service and funeral service
HuaiBei Fu Shou Yuan Jinianling Co., Ltd 淮北福壽園紀念陵有限責任公司	PRC	September 23, 2014	RMB30,000,000	100	100	Provision of burial service
Guanlingshan Cultural Cemetery (Note(f)) [^] 遼寧觀陵山藝術園林公墓有限公司	PRC	December 11, 2012	RMB118,600,000	70	N/A	Provision of burial service
Wuyuan Wanshoushan Cemetery [^] (Note (g)) 婺源萬壽山陵園有限公司	PRC	May 7, 2013	RMB3,500,000	75	N/A	Provision of burial service and funeral service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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		Principal activities
				At December 31,		
				2015 %	2014 %	
Anyang Wulong Civil Service Co., Ltd ° ^ (Note (h)) 安陽縣五龍民生服務有限公司	PRC	October 25, 2010	RMB 54,500,000	80	N/A	Provision of burial service
Changzhou Qifengshan International Cemetery Co., Ltd ° ^ (Note (i)) 常州棲鳳山國際人文陵園有限公司	PRC	March 22, 2007	RMB 55,000,000	80	N/A	Provision of burial service
Fushouyuan (Shanghai) Investment Co., Ltd+* 福壽園(上海)投資有限公司	PRC	July 14, 2015	RMB200,000,000	100	N/A	Investment holding

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

* The entity was set up during the year ended December 31, 2015.

^ 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, 2015.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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.
- (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 Fu Shou Yuan assigned irrevocable rights to Chongqing FSY Group to direct the relevant activities of Shandong Fu Shou Yuan unilaterally, controlling interests are acquired on March 1, 2011 and the remaining 50% in Shandong Fu Shou Yuan is held by Shandong World Trade Centre (山東世界貿易中心).
- (e) Haigang Fu Shou Yuan 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 Haigang Fu Shou Yuan unilaterally. As such, Haigang Fu Shou Yuan is accounted for as a subsidiary of the Group from January 4, 2013.
- (f) The Group acquired 70% interests in Guanlingshan Cultural Cemetery on January 9, 2015 and has practical ability to direct the relevant activities of Guanlingshan Cultural Cemetery. As such, Guanlingshan Cultural Cemetery is accounted for a subsidiary of the Group from January 9, 2015.
- (g) The Group acquired 75% interests in Wuyuan Wanshoushan Cemetery on February 13, 2015 and has practical ability to direct the relevant activities of Wuyuan Wanshoushan Cemetery. As such, Wuyuan Wanshoushan Cemetery is accounted for a subsidiary of the Group from February 13, 2015.
- (h) The Group acquired 80% interests in Anyang Wulong Civil Service Co., Ltd on June 1, 2015 and has practical ability to direct the relevant activities of Anyang Tianshouyuan Cemetery. As such, Anyang Tianshouyuan Cemetery is accounted for a subsidiary of the Group from June 1, 2015.
- (i) The Group acquired 80% interests in Changzhou Qifengshan International Cemetery Co., Ltd on December 1, 2015 and has practical ability to direct the relevant activities of Changzhou Qifengshan Cemetery. As such, Changzhou Qifengshan Cemetery is accounted for a subsidiary of the Group from December 1, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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	
		2015	2014	2015	2014	2015	2014
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Hefei Dashushan Co	PRC	40	40	17,876	15,544	24,929	22,253
Nanchang Hongfu Shandong	PRC	49.11	49.11	450	(170)	68,050	43,046
Fu Shou Yuan	PRC	50	50	2,360	4,262	23,425	21,065
Haigang Fu Shou Yuan	PRC	60	60	46,169	32,676	92,575	88,406
Chongqing Baitayuan	PRC	40	40	4,738	719	55,743	51,005
Guanlingshan Cultural Cemetery	PRC	30	—	7,071	—	106,523	—
Changzhou Qifengshan Cemetery	PRC	20	—	(24)	—	24,145	—
Individually immaterial subsidiaries with non-controlling interests				2,085	1,656	18,450	3,264
Total				80,725	54,687	413,840	229,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

	2015 RMB'000	2014 RMB'000
Current assets	<u>110,368</u>	<u>93,624</u>
Non-current assets	<u>12,268</u>	<u>11,493</u>
Current liabilities	<u>43,209</u>	<u>35,577</u>
Non-current liabilities	<u>17,104</u>	<u>13,910</u>
Equity attributable to owners of the Company	<u>37,394</u>	<u>33,377</u>
Non-controlling interests	<u>24,929</u>	<u>22,253</u>
	2015 RMB'000	2014 RMB'000
Revenue	<u>102,891</u>	<u>84,682</u>
Expenses	<u>(58,200)</u>	<u>(45,823)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>26,815</u>	<u>23,315</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>17,876</u>	<u>15,544</u>
Profit and total comprehensive income for the year	<u>44,691</u>	<u>38,859</u>
Dividends paid to non-controlling interests	<u>15,200</u>	<u>14,000</u>
Net cash inflow from operating activities	<u>58,182</u>	<u>54,329</u>
Net cash outflow from investing activities	<u>(1,166)</u>	<u>(35,281)</u>
Net cash outflow from financing activities	<u>(38,000)</u>	<u>—</u>
Net cash inflow	<u>19,016</u>	<u>19,048</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Nanchang Hongfu

	2015 RMB'000	2014 RMB'000
Current assets	<u>104,861</u>	<u>66,272</u>
Non-current assets	<u>126,924</u>	<u>115,324</u>
Current liabilities	<u>79,570</u>	<u>80,203</u>
Non-current liabilities	<u>13,805</u>	<u>13,896</u>
Equity attributable to owners of the Company	<u>70,360</u>	<u>44,451</u>
Non-controlling interests	<u>68,050</u>	<u>43,046</u>
	2015 RMB'000	2014 RMB'000
Revenue	<u>18,986</u>	<u>995</u>
Expenses	<u>(18,073)</u>	<u>(1,344)</u>
Profit (loss) and total comprehensive income (expense) attributable to the owner of the Company	<u>463</u>	<u>(179)</u>
Profit (loss) and total comprehensive income (expense) attributable to non-controlling interest	<u>450</u>	<u>(170)</u>
Profit (loss) and total comprehensive income (expense) for the year	<u>913</u>	<u>(349)</u>
Capital injection from non-controlling interests	<u>24,554</u>	<u>—</u>
Net cash (outflow) inflow from operating activities	<u>(30,096)</u>	<u>2,805</u>
Net cash outflow from investing activities	<u>(8,687)</u>	<u>(3,922)</u>
Net cash inflow from financing activities	<u>50,000</u>	<u>—</u>
Net cash inflow (outflow)	<u>11,217</u>	<u>(1,117)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Shandong Fu Shou Yuan

	2015 RMB'000	2014 RMB'000
Current assets	<u>51,259</u>	<u>45,460</u>
Non-current assets	<u>131,234</u>	<u>134,336</u>
Current liabilities	<u>84,749</u>	<u>88,204</u>
Non-current liabilities	<u>50,894</u>	<u>49,462</u>
Equity attributable to owners of the Company	<u>23,425</u>	<u>21,065</u>
Non-controlling interests	<u>23,425</u>	<u>21,065</u>
	2015 RMB'000	2014 RMB'000
Revenue	<u>44,825</u>	<u>44,869</u>
Expenses	<u>(39,238)</u>	<u>(36,345)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>2,360</u>	<u>4,262</u>
Profit and total comprehensive income attributable to non-controlling interest	<u>2,360</u>	<u>4,262</u>
Profit and total comprehensive income for the year	<u>4,720</u>	<u>8,524</u>
Net cash inflow from operating activities	<u>10,613</u>	<u>6,556</u>
Net cash outflow from investing activities	<u>(551)</u>	<u>(651)</u>
Net cash outflow from financing activities	<u>(4,700)</u>	<u>—</u>
Net cash inflow	<u>5,362</u>	<u>5,905</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Haigang Fu Shou Yuan

	2015 RMB'000	2014 RMB'000
Current assets	<u>145,869</u>	<u>124,252</u>
Non-current assets	<u>70,335</u>	<u>76,469</u>
Current liabilities	<u>50,102</u>	<u>44,927</u>
Non-current liabilities	<u>12,401</u>	<u>8,450</u>
Equity attributable to owners of the Company	<u>61,126</u>	<u>58,938</u>
Non-controlling interests	<u>92,575</u>	<u>88,406</u>
	2015 RMB'000	2014 RMB'000
Revenue	<u>151,272</u>	<u>108,934</u>
Expenses	<u>(73,534)</u>	<u>(54,474)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>30,779</u>	<u>21,784</u>
Profit and total comprehensive income attributable to non-controlling interest	<u>46,169</u>	<u>32,676</u>
Profit and total comprehensive income for the year	<u>76,948</u>	<u>54,460</u>
Dividends paid to non-controlling interests	<u>42,000</u>	<u>26,433</u>
Net cash inflow from operating activities	<u>89,377</u>	<u>63,536</u>
Net cash outflow from investing activities	<u>(5,720)</u>	<u>(1,654)</u>
Net cash outflow from financing activities	<u>(70,000)</u>	<u>(44,055)</u>
Net cash inflow	<u>13,657</u>	<u>17,827</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Chongqing Baitayuan

	2015 RMB'000	2014 RMB'000
Current assets	<u>26,002</u>	<u>19,975</u>
Non-current assets	<u>173,070</u>	<u>175,337</u>
Current liabilities	<u>25,876</u>	<u>31,194</u>
Non-current liabilities	<u>33,839</u>	<u>36,606</u>
Equity attributable to owners of the Company	<u>83,614</u>	<u>76,507</u>
Non-controlling interests	<u>55,743</u>	<u>51,005</u>
	2015 RMB'000	2014 RMB'000
Revenue	<u>26,971</u>	<u>7,289</u>
Expenses	<u>(15,396)</u>	<u>(5,492)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>7,107</u>	<u>1,078</u>
Profit and total comprehensive income attributable to non-controlling interest	<u>4,738</u>	<u>719</u>
Profit and total comprehensive income for the year	<u>11,845</u>	<u>1,797</u>
Net cash inflow (outflow) from operating activities	<u>7,379</u>	<u>(1,845)</u>
Net cash outflow from investing activities	<u>(9,245)</u>	<u>(5,374)</u>
Net cash outflow	<u>(1,866)</u>	<u>(7,219)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Guanlingshan Cultural Cemetery

	2015 RMB'000
Current assets	<u>110,649</u>
Non-current assets	<u>364,849</u>
Current liabilities	<u>107,325</u>
Non-current liabilities	<u>13,095</u>
Equity attributable to owners of the Company	<u>248,555</u>
Non-controlling interests	<u>106,523</u>

	2015 RMB'000
Revenue	<u>128,422</u>
Expenses	<u>(103,310)</u>
Profit and total comprehensive income attributable to the owner of the Company	<u>16,500</u>
Profit and total comprehensive income attributable to non-controlling interest	<u>7,071</u>
Profit and total comprehensive income for the year	<u>23,571</u>
Net cash inflow from operating activities	<u>47,885</u>
Net cash outflow from investing activities	<u>(80,242)</u>
Net cash outflow from financing activities	<u>(185,844)</u>
Net cash outflow	<u>(218,201)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Changzhou Qifengshan Cemetery

	2015 RMB'000
Current assets	19,793
Non-current assets	124,094
Current liabilities	6,243
Non-current liabilities	17,020
Equity attributable to owners of the Company	96,479
Non-controlling interests	24,145
	2015 RMB'000
Revenue	867
Expenses	(904)
Loss and total comprehensive expense attributable to the owner of the Company	(96)
Loss and total comprehensive expense attributable to non-controlling interest	(24)
Loss and total comprehensive expense for the year	(120)
Net cash inflow from operating activities	812
Net cash outflow from investing activities	(1,901)
Net cash outflow	(1,089)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

42. INFORMATION OF FINANCIAL POSITIONS OF THE COMPANY

The statement of financial position of the Company as at December 31, 2015 and 2014 are as follows:

	2015	2014
	RMB'000	RMB'000
Trade and other receivable	205	229
Interest in subsidiaries and Amount due from subsidiaries	1,486,402	1,486,402
Bank balances and cash	10,851	660
Total assets	1,497,458	1,487,291
Trade and other payable	272	179
Amount due to a subsidiary	146,418	69,008
Dividends payable	—	—
Total liabilities	146,690	69,187
	1,350,768	1,418,104
Capital and reserves		
Share capital	126,601	125,689
Reserves (Note (a))	1,224,167	1,292,415
	1,350,768	1,418,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Note (a):

	Share premium RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
Note (b)					
At January 1, 2014	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
Exercise of stock options	20,278	—	(9,429)	—	10,849
Share based compensation	—	—	29,370	—	29,370
Loss and total comprehensive expense for the year	—	—	—	(35,548)	(35,548)
Dividends recognized as distributions	(72,919)	—	—	—	(72,919)
At December 31, 2015	1,190,533	79,667	46,686	(92,719)	1,224,167

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

43. CONTINGENT LIABILITY

Before the completion of the acquisition of Wuyuan Wanshoushan Cemetery, as disclosed in Note 35(b) Mr. Liang Lihua (梁利華) (“Mr Liang”), the selling shareholder of the 75% equity interest who is now still holding the remaining 25% equity interest as the non-controlling interests in Wuyuan Wanshoushan Cemetery, entered into unauthorized transactions on behalf of Wuyuan Wanshoushan Cemetery to guarantee some of his personal loans, thereby incurring potential guarantee liability for Wuyuan Wanshoushan Cemetery. Mr. Liang had also allegedly transferred some of his other personal loans to Wuyuan Wanshoushan Cemetery without any proper corporate authorizations. Mr. Liang had not disclosed any of the abovementioned personal loans to Shanghai Fu Shou Yuan before the completion of the acquisition of Wuyuan Wanshoushan Cemetery. The creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery (together the “Creditors”) brought a total of 8 law suits against Mr. Liang and Wuyuan Wanshoushan Cemetery with claims over RMB44 million (including interest accrued up to 31 December 2015), with first-instance legal proceedings initiated at two People’s Courts in Jiangxi province (the “People’s Courts”) (the “Proceedings”).

As at the date of this report, some of the Proceedings have been settled or concluded by the People’s Courts, with awards in favour of Wuyuan Wanshoushan Cemetery for approximately RMB8 million and an award against Wuyuan Wanshoushan Cemetery for approximately RMB1 million. The outstanding disputed amounts stood at approximately RMB 35 million (including the amounts of (i) RMB33 million awarded in favour of the plaintiffs in the first-instance legal proceedings and (ii) RMB2 million involved in the first-instance legal proceedings currently pending at the People’s Courts) (the “Remaining Proceedings”). The Company considers the Remaining Proceedings were not well grounded based on independent legal professional advice it has obtained. Wuyuan Wanshoushan Cemetery has either responded to, or has filed an appeal, against such Remaining Proceedings. To mitigate its losses, the Group initiated separate legal steps against Mr. Liang to recover any losses it suffers as a result of the Proceedings.

Given the nature of the Remaining Proceedings, it would not be possible to predict the outcome of the appeal with certainty and whether the Remaining Proceedings will in the end result in any material adverse impact on the financial position and business operation of the Group. As of the date of this report, the Directors are of view that no provision shall necessarily be made according to the legal opinion and the current status of Remaining Proceedings.

DEFINITIONS AND GLOSSARY

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AGM”	the annual general meeting of the Company to be held on May 16, 2016
“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Wulong Civil Service Co., Ltd.* (安陽縣五龍民生服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Annual Report”	this annual report dated March 18, 2016 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
“Auxiliary services”	auxiliary services includes provision of landscape and garden design services and production and sales of cremation machine and the related maintenance service
“Board” or “Board of Directors”	the board of Directors
“BVI”	the British Virgin Islands
“CG Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
“Changzhou Qifengshan Cemetery”	a cemetery in Changzhou City of Jiangsu Province and operated by Changzhou Qifengshan International Cemetery Co., Ltd.* (常州棲鳳山國際人文陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“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
“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



DEFINITIONS AND GLOSSARY

“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 FSY Group”	Chongqing Fu Shou Yuan Group Co., Ltd.* (重慶福壽園集團有限公司), formerly known as 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
“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
“Dafeng Funeral Home”	the government-operated funeral home of Dafeng City in Jiangsu Province
“Dafeng Funeral Service Center”	an integrated, one-stop provider for the sale of funeral products, family vigils and farewell services in Dafeng City of Jiangsu Province
“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”	A cemetery 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
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
“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

DEFINITIONS AND GLOSSARY

“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)
“Guanlingshan Cultural Cemetery”	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
“Haigang Fu Shou Yuan”	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 Fu Shou Yuan, 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
“Hefei Dashushan Co”	Hefei Dashushan Culture Cemetery Co., Ltd.* (合肥大蜀山文化陵園有限公司), a company established in the PRC on February 22, 2002, owned as to 40% by Chongqing FSY Group, 40% by Hefei Shushan Martyr Cemetery Management Department* (合肥蜀山烈士陵園管理處), and 20% by Shanghai Fu Shou Yuan. 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 Fu Shou Yuan”	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



DEFINITIONS AND GLOSSARY

“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
“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
“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 Fu Shou Yuan, 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

DEFINITIONS AND GLOSSARY

“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Shandong Fu Shou Yuan”	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 Group 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 Fu Shou Yuan
“Shanghai Fu Shou Yuan”	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 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



DEFINITIONS AND GLOSSARY

“Share Option Scheme”	the share option scheme conditionally adopted by the Company on December 3, 2013
“Share Option A”	On August 5, 2014 the Company granted 40,000,000 share options to the Directors and employees of the Group
“Share Option B”	On March 19, 2015 the Company granted 50,000,000 share options to the Directors and employees of the Group
“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
“Wuyuan Wanshoushan Cemetery”	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 subsidiary 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 Xiaojang (白曉江), the chairman and one of the executive Directors of the Company
“Year Under Review”	year ended December 31, 2015
“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.