福壽園國際集團
FU SHOU YUAN INTERNATIONAL GROUP

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

2016
ANNUAL REPORT

Stock code: 01448

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Ma Xiang[(1)]
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

COMPANY SECRETARY

Mr. Zhang Jingming[(2)(3)]

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang
Mr. Zhang Jingming[(4)]

REGISTERED OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
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

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

Notes:

(1) With effect from January 12, 2016, Mr. Lin Hung Ming has resigned as non-executive Director and Mr. Ma Xiang has been appointed as non-executive Director.

(2) With effect from August 17, 2016, Mr. Zhang Jingming has been appointed in replacement of Ms. Wong Wai Ling as a joint company secretary of the Company.

(3) With effect from March 17, 2017, Mr. Zhao Yu has resigned as joint company secretary of the Company and Mr. Zhang Jingming remained as sole company secretary of the Company.

(4) With effect from March 17, 2017, Mr. Zhang Jingming has been appointed in replacement of Mr. Zhao Yu as an authorized representative of the Company.

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 Tohmatsu

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 2016 full-year results of the Group.

In 2016, China's economy was stable and positive. The gross domestic product (GDP) increased by 6.7% year-on-year, making a good start of the 13th Five-Year Plan. During 2016, the Group recorded good results by continuing to deepen its core business and expand its business coverage. The Group's revenue amounted to RMB1,267.7 million, representing an increase of 14.4% compared to the same period in 2015. Net profit was RMB448.5 million, representing an increase of 22.8% compared with 2015, of which profit and total comprehensive income attributable to shareholders was RMB339.0 million, representing of an increase 19.2% compared to the same period last year. The Board proposes a final dividend of HK2.60 cents per Share for 2016 to the Shareholders to reward all investors for their support. Together with the interim dividend of HK2.57 cents per Share distributed during the Year, the total dividend for the full year of 2016 is HK5.17 cents per share, which is in line with the Group's committed dividend policy to reward all investors for their support.

In 2016, the Group consolidated its development in core business and expanded its business area, laying a good foundation for the long-term development. Currently, cemeteries and funeral facilities controlled by the Group cover 16 cities across China. Changzhou Qifengshan Cemetery was acquired at the end of 2015 and delivered the expected revenue and the two cemeteries in Anyang City and Huaibei City started to generate revenue in 2016. Moreover, the Group also signed an agreement during the Year to acquire Luoyang Xianhe Cemetery to broaden the coverage in Henan, which further combined the traditional with modern death care industry culture. During the Year, the Group consistently deepened its cooperation with local governments by PPP (Public-Private Partnership) model, making further extension and improvement on the cooperation scope and model. In January and February 2016, the Group developed partnership with the local governments of Tai'an City in Shandong Province, and Bishan District in Chongqing Municipality under the BOT (Build-Operate-Transfer) model. In addition, the Group entered into an agreement with Xuancheng City of Anhui Province in September 2016. We believe that merger & acquisition and our extensive involvement with local governments in burial and funeral projects by PPP model will be the drivers for our long term stable growth with the marketization trend in death care services industry.

During the Year, the Group extended its business coverage and upgraded its industrial chain. In response to Guidelines on the Promotion of Land-saving Ecological Burial issued by the nine ministries including the Ministry of Civil Affairs, the Group not only enhanced the promotion and sales of the environmental funeral but also accelerated the research and development of the environmental facilities. Our self-developed environmental-friendly cremation machine successfully passed an authoritative environmental assessment and the accreditation of national expert level in June and December 2016 respectively, which was exported to Mongolia and Russia. The cremator business was recognized by the international market from the very beginning. Meanwhile, the Group achieved a strategic breakthrough in the pre-need contract market by establishing pre-need business department and launching trial sale of pre-need contract for funeral services. The good beginning constituted a solid foundation for further development of the new business.

CHAIRMAN'S STATEMENT

2016 was the 60th year of China's reform in death care industry. Fu Shou Yuan is the participant and leader, also one of the beneficiaries of this reform. Fu Shou Yuan not only becomes an "indicator of growth" in industrial and investment field, but brings humanity, environmental protection, charity and care into their daily work based on the awareness of taking responsibilities for the enterprise, society, industry and history in order to promote the long-run development of the company and the industry. During the Year, "Fu Shou Yuan Life Service College" operated well and effectively. Cultural inheritance and talent reserve are the effective way for the Company's sustainable development and also the core code of Fu Shou Yuan. Besides, the Group constantly deepened international communication and cooperation by establishing "Brother Cemetery" with "Parque De Las Memorias" of Bolivia. All of these led us to be recognized by various sectors of the community. During the Year, the Group was awarded "the Excellent Design Prize of the Sixth IDEA-KING Award", Gold Award in "Excellent Shanghai Public Relations Cases" and "2016 Outstanding Brand Image" of China Finance Summit. 2016 was the third year the Group entered into the Hong Kong capital market and Fu Shou Yuan is also officially included into list of eligible stocks to be traded under Shenzhen-Hong Kong Stock Connect Program. Also the Group was granted "IFAPC Outstanding Listed Companies Award 2016", which fully reflects investors' recognition for Fu Shou Yuan since its Listing.

Looking forward, the Group will further focus on the development of our core business, explore innovation and new extension business and will parallelly impel our internal and external developments to provide diversified quality services to customers. The Group will also deeply carry out the principle of "innovation, harmony, green, openness, sharing" proposed by the central government to ensure it will continuously take development quality and efficiency as the center, to ensure the shareholders' benefits and maximize the values.

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

Hong Kong, March 17, 2017

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.

On February 19, 2016, nine ministries, including the Ministry of Civil Affairs, jointly issued the Guidelines on the Promotion of Landing-saving Ecological Burial to promote eco-burial and intensify funeral reform, which will have a direct and far-reaching effect on the death care service industry in China.

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

As the largest death care services provider in the PRC, the Group strives to develop cemeteries into urban cultural parks, offer the last farewell to lives with respects and comeliness, transform the 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 2016, the Group has as always continued to put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improving service quality, and offering innovative services and products. The beautiful cemeteries meticulously constructed by us and the customized services that we strived to provide continued to gain widespread recognition from our customers.

Leveraging the capital strength achieved from the Group's Listing and our vision on the death care industry and management experience, we have been expanding our business by collaborating with local governments, and thus establishing a new operation model in the industry. In January and February 2016, we signed agreements with the local governments of Tai'an City in Shandong Province, and Bishan District in Chongqing Municipality, respectively to establish and operate funeral parlours under the BOT (build-operate-transfer) model, and co-invest in new cemeteries. In September 2016, we were approved to establish and operate a local funeral facility together with a cemetery in Xuancheng City of Anhui Province. We are striving for the earliest possible completion of the projects in these 4 cities, including one project in Dafeng City of Jiangsu Province, where the agreement was signed in 2015. The launch of these projects will facilitate further breakthroughs in the Group's cooperation with local governments in the PRC in the future. It will also increase the percentage weight of the funeral service within the Group's whole business.

MANAGEMENT DISCUSSION AND ANALYSIS

Our two cemeteries in Anyang City and Huaibei City started to generate revenue during the Year. Changshou Qifengshan Cemetery was acquired at the end of 2015 and also delivered the expected revenue. We signed an agreement to acquire 80% equity interest in Luoyang Xianhe Cemetery in September 2016 and completed the acquisition in January 2017. As at December 31, 2016, excluding the projects under development, we owned up to 13 cemeteries in operation, and were operating up to 11 funeral facilities. We also generate revenue by providing management services to three small cemeteries. The geographic coverage of our business has expanded to 16 cities in 10 provinces or municipalities in the PRC. The expanding business footprints lay a good foundation for the Group's future development.

We obtained accredited environmental testing and authoritative recognition of national expert level on our self-developed environmental-friendly cremation machine in June 2016 and in December 2016 respectively. The first batch of products exported to Mongolia and Russia in December 2016. We believe our environmental friendly cremator business will make considerable contribution to the Group's business growth in 2017 and afterwards.

During the Year, we established pre-need business department, launched trial sale of pre-need contract for funeral services, and achieved encouraging feedbacks. This is a significant move for the Group to strategically tap the pre-need contract market.

While growing rapidly, the Group also strives to strengthen its core competitiveness and industry consolidation capacity. The Group's "Culture and Education Committee" and "Fu Shou Yuan Life Service College", established in 2015, have been in operation. We strive to preach and implement the advanced international funeral concepts so as to train and build a pool of professionals for future business expansion. We continually motivate our management and employees. During 2016, we granted fourth batch of share options under the Share Option Schemes, which further enhanced and boosted the Group's internal cohesion and effectively motivated our employees. Meanwhile, we have been making continuous efforts to enhance our management by strengthening the budget control, internal management system and information technology.

As a result of all these efforts, we achieved impressive growth despite of the slow-down of China's economy growth. During 2016, the Group recorded the sale of 13,142 tombs and provided 16,751 funeral services. The total revenue amounted to RMB1,267.7 million, representing an increase of 14.4% year over year. Our gross profit margin and revenue per square meter of land were also further improved, as compared to last year. The Group made a net profit totaling RMB448.5 million, representing an increase of 22.8% compared to last year. Net profit attributable to our shareholders was RMB339.0 million, representing an increase of 19.2% as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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:

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Burial services	**1,111,809**	**87.7%**	960,176	86.7%
Funeral services	**142,288**	**11.2%**	140,124	12.6%
Auxiliary services	**17,480**	**1.4%**	12,352	1.1%
Inter-segment elimination	**(3,922)**	**(0.3%)**	(4,692)	(0.4%)
Total	**1,267,655**	**100.0%**	1,107,960	100.0%

Our revenue increased by RMB159.7 million, or 14.4%, from RMB1,108 million for 2015 to RMB1,267.7 million for 2016. This increase was primarily driven by a 15.8%, or RMB151.6 million, increase in revenue from burial services.

We obtained accredited environmental testing and authoritative recognition of national expert level on our environmental-friendly cremation machine in June 2016 and in December 2016 respectively. We export the first batch of environmental-friendly cremation machine to Mongolia and Russia and recorded revenue of approximately RMB7.9 million, in December 2016. It is believed that the environmental-friendly cremation machine business will make considerable contribution to the Group's revenue in the near future.

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:

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai	**668,445**	**53.3%**	555,516	50.4%
Henan	**48,429**	**3.9%**	64,450	5.9%
Chongqing	**83,188**	**6.7%**	90,869	8.3%
Anhui	**124,591**	**9.9%**	102,891	9.4%
Shandong	**43,015**	**3.4%**	44,825	4.1%
Liaoning	**188,402**	**15.0%**	189,135	17.1%
Jiangxi	**36,336**	**2.9%**	27,337	2.4%
Fujian	**26,536**	**2.1%**	21,626	2.0%
Zhejiang	**5,126**	**0.4%**	2,784	0.3%
Jiangsu	**30,029**	**2.4%**	867	0.1%
Total	**1,254,097**	**100.0%**	1,100,300	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 the Year. As a result, we achieved growth as compared to last year in majority of locations where we operate. We completed the acquisition of the controlling equity in Changzhou Qifengshan Cemetery in December 2015. It contributed revenue of RMB30.0 million for the Year. The revenue from Henan region decreased by RMB16.0 million, or 24.9%, as compared to last year. It is because that Henan Fu Shou Yuan sold a batch of 3,495 plots, amounting to RMB25.5 million, to accommodate the tomb relocation funded by local government last year, while such revenue related to the tomb relocation for the Year only amounted to RMB1.8 million from 120 plots. The revenue from Chongqing region decreased by RMB7.7 million, or 8.5% as compared to 2015. It is mainly because the funeral agents have been providing underground wake services by making use of a newly government built funeral parlour since the second half of 2015, which eroded part of our market share. We have been approaching this funeral parlour for possible cooperation, actively exploring other suitable sites to increase our funeral service coverage in Chongqing and improving marketing penetration. We will also leverage the synergy to improve the performance considering we have relatively complete business line, including funeral wake, cremation, cemetery and columbarium in Chongqing.

BURIAL SERVICES

We derived a substantial portion of our revenue from burial services, which represented 87.7% (2015: 86.7%) of our total revenue for 2016. 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 2016. 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:

	Year ended December 31							
	2016				2015			
	No. of Units	Average Selling price (RMB per Unit)	Revenue (RMB'000)	% of revenue from burial services	No. of Units	Average Selling price (RMB per Unit)	Revenue (RMB'000)	% of revenue from burial services
Sale of burial plots								
– Customized	812	338,053	274,499	24.7%	724	296,227	214,468	22.3%
– Artistic	4,404	101,922	448,867	40.4%	6,692	53,350	357,016	37.2%
– Traditional	5,229	40,834	213,522	19.2%	5,534	42,093	232,944	24.3%
– Lawn	700	69,935	48,954	4.4%	780	63,577	49,590	5.2%
– Green	980	16,218	15,894	1.4%	2,506	5,132	12,860	1.3%
– Indoor	1,017	14,434	14,679	1.3%	1,086	10,869	11,804	1.2%
– Other burial related services	—	—	76,712	6.9%	—	—	65,492	6.8%
	13,142	—	1,093,127	98.3%	17,322	—	944,174	98.3%
Cemetery maintenance services	—	—	18,682	1.7%	—	—	16,002	1.7%
Total revenue from burial services	13,142	—	1,111,809	100.0%	17,322	—	960,176	100.0%

We sold 12,486 burial plots, excluding 536 plots charged with very low prices in Haigang Fu Shou Yuan for public welfare purpose and 120 plots sold by Henan Fu Shou Yuan to accommodate the tomb relocation funded by local government for the Year. While we sold 11,397 burial plots, excluding those plots in relation to public welfare and relocation for 2015. The number of burial plots we sold increased by 1,089 units, or 9.6% from our ordinary business as compared to last year. Among 1,089 units, 527 burial plots were sold by Changzhou Qifengshan Cemetery, a subsidiary acquired in December 2015, for the Year.

The average selling price of burial plots, excluding those plots for public welfare and tomb relocation purpose as mentioned above, was RMB87,357 per unit for the Year. It is increased by RMB7,146 per unit, or 8.9%, from RMB80,211 per unit for 2015.

We have 13 cemeteries in operation as of December 31, 2016, and have been deriving revenue from 12 of them as subsidiaries and one of them as a joint venture. The following table sets forth the breakdown of our revenue from the burial services by cemetery for the Year:

	Year ended December 31			
	2016		2015	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai Fu Shou Yuan	**461,124**	**41.5%**	390,287	40.6%
Haigang Fu Shou Yuan	**191,258**	**17.2%**	151,272	15.8%
Henan Fu Shou Yuan	**46,926**	**4.2%**	63,674	6.6%
Shandong Fu Shou Yuan	**43,015**	**3.9%**	44,825	4.7%
Hefei Dashushan Cultural Cemetery	**89,031**	**8.0%**	71,589	7.4%
Jinzhou Maoshan Anling	**46,960**	**4.2%**	60,713	6.3%
Chongqing Baitayuan	**31,742**	**2.9%**	25,332	2.6%
Meilin Century Cemetery	**22,973**	**2.1%**	17,847	1.9%
Guanlingshan Cultural Cemetery	**141,442**	**12.7%**	128,422	13.4%
Wuyuan Wanshoushan Cemetery	**5,806**	**0.5%**	4,573	0.5%
Anyang Tianshouyuan Cemetery	**1,503**	**0.1%**	776	0.1%
Changzhou Qifengshan Cemetery	**30,029**	**2.7%**	866	0.1%
Total revenue from burial services	**1,111,809**	**100.0%**	960,176	100.0%
Joint venture's revenue from burial services				
Huaibei Fangshan Cemetery	**4,322**	**100.0%**	—	—

Total consolidated revenue from burial services for the Year increased by RMB151.6 million, or 15.8%, as compared to 2015. We achieved stable growth for the Year as compared to last year in majority of the cemeteries where we operate. However, the revenue from Henan Fu Shou Yuan decreased by RMB16.7 million, or 26.3%, as compared to 2015, with a reason discussed above. The revenue from Jinzhou Maoshan Anling decreased by RMB13.8 million, or 22.7%, as compared to 2015. It is mainly due to the severe local economy downturn in Jinzhou City, the structural changes in demand, and disordered competition from cemeteries originally established for public service purpose. Jinzhou Maoshan Anling will adjust its product profile to intensify the differentiating strategy in a timely manner, and promote its core competitive competency.

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:

	Year ended December 31			
	2016		2015	
	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	**207,679**	**78.3%**	195,235	78.7%
Funeral services	**49,859**	**18.8%**	43,968	17.7%
Auxiliary services	**11,487**	**4.3%**	11,750	4.7%
Inter-segment elimination	**(3,722)**	**(1.4%)**	(2,792)	(1.1%)
Total	**265,303**	**100.0%**	248,161	100.0%

Our cost of sales and services increased by RMB17.1 million, or 6.9%, from RMB248.2 million for 2015 to RMB265.3 million for 2016. The increases were mainly due to our business growth in burial and funeral services.

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

	Year ended December 31			
	2016		2015	
	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	**63,774**	**30.7%**	60,000	30.7%
Land cost	**30,770**	**14.8%**	24,369	12.5%
Development cost	**61,008**	**29.4%**	51,944	26.7%
Taxes	**4,633**	**2.2%**	14,720	7.5%
Cemetery maintenance cost	**11,415**	**5.5%**	9,140	4.7%
Costs for other burial related services	**36,079**	**17.4%**	35,062	17.9%
Total	**207,679**	**100.0%**	195,235	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.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, our gross profit increased by approximately RMB142.6 million, or 16.6%, from approximately RMB859.8 million for 2015 to approximately RMB1,002.4 million for 2016. 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 79.1% for the Year, slightly higher than the overall gross profit margin of 77.6% for 2015. This was mainly due to the increased gross margin of burial services as a result of increased average selling price and effective cost control, while partially offset by the decreased gross margin of funeral services as a result of decreased revenue from two funeral facilities in Chongqing as discussed above.

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the Year:

	Year ended December 31			
	2016		2015	
	Gross Profit (RMB'000)	**Gross Profit Margin (%)**	Gross Profit (RMB'000)	Gross Profit Margin (%)
Burial services	**904,130**	**81.3%**	764,941	79.7%
Funeral services	**92,429**	**65.0%**	96,156	68.6%
Auxiliary Services	**5,993**	**34.3%**	602	4.9%
Inter-segment elimination	**(200)**	**5.1%**	(1,900)	40.5%
Total	**1,002,352**	**79.1%**	859,799	77.6%

OTHER INCOME AND GAINS, NET

Our interest income decreased by RMB3.6 million from RMB39.3 million for 2015 to RMB35.7 million for 2016, mainly due to the decreased yield rate in China capital market.

We received government grants in the amount of RMB10.7 million for 2016, which represented unconditional subsidies from the local government to encourage and reward our contribution to the local economy.

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 the Year, we recorded net income of RMB3.2 million for such services provided.

We recorded exchange gain of RMB4.9 million for 2016, as a result of appreciation of Hong Kong dollar and US dollar against RMB during the Year.

An apartment in Shanghai was left as a bequest to us from one of our customers. We recorded a gain of RMB6.3 million, including the fair value change of RMB3.1 million related to this apartment during the Year.

DISTRIBUTION AND SELLING EXPENSES & ADMINISTRATIVE EXPENSES

Our operating expenses, accounting for 39.2% of our total revenue for 2016 (41.1% for 2015), increased by RMB40.8 million, or 9.0%, from RMB455.6 million for 2015 to RMB496.4 million for 2016. The increase was mainly as the result of: (i) the operating expenses of RMB9.6 million from Changzhou Qifengshan, a subsidiary acquired in December 2015, (ii) higher amortization on stock option by RMB6.8 million, as a result of the grant of new options during the Year, (iii) a couple of projects kicked off while still in start-up period, and (iv) general variable expenditures increase to support the business growth.

FINANCE COSTS

Finance costs for 2016 consist of interest expense of RMB5.9 million (2015: RMB4.4 million) on bank loans, and interest expenses of RMB2.3 million (2015: 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 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 provided 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.

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. Our effective corporate income tax rates for 2016 was 19.5% (2015: 20.5%). 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; and (iii) we have also reversed certain prior year tax provisions during the Year as the tax uncertainties of which have been resolved.

The income tax expense increased by approximately RMB14.1 million, or 14.9% from approximately RMB94.4 million for 2015 to approximately RMB108.5 million for 2016, 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 RMB54.5 million, or 19.2%, from approximately RMB284.4 million for 2015 to approximately RMB339.0 million for 2016. This increase was primarily due to: (i) the overall growth of our revenue by 14.4%; (ii) the effective cost and expenditure control; and (iii) the decreased effective corporate income tax rate.

CASH FLOW

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

	Year ended December 31	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash generated from (used in)		
– operating activities	**455,423**	366,578
– investing activities	**(340,500)**	(381,434)
– financing activities	**(152,778)**	(5,140)
Total	**(37,855)**	(19,996)

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 2016, our net cash generated from operating activities amounted to approximately RMB455.4 million, representing 24.2% increase as compared to that for 2015. It mainly included the operating cash inflows before movement in working capital of approximately RMB627.0 million, and partially offset by the increase of other working capital of approximately RMB50.1 million and the income tax paid of approximately RMB121.5 million.

For 2016, our net cash used in investing activities was approximately RMB340.5 million. It was primarily due to: (i) considerations, deposits and advances of RMB30.5 million paid to acquire new cemeteries and funeral facilities, (ii) our additions to and deposits for property and equipment of approximately RMB47.2 million, mainly in connection with our landscape upgrade in the cemeteries we acquired recent years since IPO and decoration improvement in certain funeral facilities; and (iii) the placement of time deposits of RMB293.9 million. It was partially offset by the interests received of approximately RMB32.8 million for the Year.

Our net cash used in financing activities amounted to approximately RMB152.8 million for 2016. It was primarily due to: (i) final dividends for 2015 paid to owners of the Company of RMB42.2 million and interim dividends for 2016 of RMB46.3 million, (ii) dividends paid to non-controlling interests of approximately RMB69.8 million, (iii) net decrease of bank loans of RMB33.5 million, and (iv) interest paid of approximately RMB10.1 million for our borrowings. It was partially offset by: (i) capital injection of approximately RMB39.2 million from non-controlling interests of a subsidiary, and (iii) proceeds received of approximately RMB13.7 million related to the exercise of certain employee share options.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2016, we had bank balances and cash of approximately RMB1,238.9 million (December 31, 2015: RMB1,276.8 million) and time deposits of approximately RMB293.9 million (December 31, 2015: NIL). 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 RMB134.0 million as at December 31, 2016, within which there are borrowings of RMB60.5 million repayable within one year, RMB21.0 million repayable within two years, RMB20.8 million repayable within three years, RMB17.8 million repayable within four years, and RMB13.9 million repayable within five years. These borrowings were denominated in RMB and were subject to floating interest rates ranged from 4.35% to 4.998% per annum. Meanwhile, Shandong Fu Shou Yuan, one of our subsidiaries, also had an outstanding loan balance of approximately RMB34.4 million with interest rate of 5.06% per annum, without specific repayment schedule, from its non-controlling shareholder, Shandong World Trade Centre.

In addition, we had bank borrowing facilities of approximately RMB1,326 million committed but not withdrawn as at December 31, 2016.

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, 2016 was 5.6% (December 31, 2015: 7.8%). 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 relatively 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, 2016, cash and cash equivalents and time deposits held in RMB, Hong Kong dollars and US dollars accounted for approximately 88.7%, 2.6% and 8.7% respectively, of the total cash and cash equivalents and time deposits. 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

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 Tai'an City of Shandong Province and an investment agreement in relation to the construction and operation of a funeral home in Tai'an City under the "BOT" model with relevant local authorities. The cooperation is currently in the early 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 cemetery and funeral home are under construction.

On September 2, 2016, we entered into an agreement to establish and operate a funeral home together with a cemetery in Xuancheng City of Anhui Province with relevant local authorities. The project is currently in the start-up stage.

On September 28, 2016, we entered into an agreement to acquire 80% equity interest in Luoyang Xianhe Cemetery with a total consideration of RMB 57.6 million. Luoyang Xianhe Cemetery has been mainly providing burial services and holds land use right for a parcel of land measuring 26,000 sq. m. in Luoyang City of Henan Province. The acquisition was completed in January 2017.

During the Year, we also completed the acquisition of 100% equity in Zaozhuang Shanting Xingtai, and commenced to consolidate its financial statements since November 1, 2016.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2016, we had 1,724 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 provided in the financial statements, for the capital expenditures in respect of acquisition of subsidiaries, land, other investments, property and equipment in an amount of approximately RMB90.8 million as at December 31, 2016. We had also planned to provide approximately RMB260 million for the acquisition or construction of new cemeteries and funeral facilities in Xuancheng City, Tai'an City and Bishan District of Chongqing Municipality as discussed above and approximately RMB70 million for the general capital expenditure of the existing cemeteries and funeral facilities.

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.

ASSETS PLEDGED

As at December 31, 2016, 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 material assets were pledged or charged.

CONTINGENT LIABILITIES

As previously disclosed, one of our indirect and non-wholly owned subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. Excluding a lawsuit dropped by the plaintiff on March 9, 2017, there are 7 lawsuits outstanding with claims totaling over RMB42 million, where Wuyuan Wanshoushan Cemetery was charged as a defendant, as at December 31, 2016. In January 2017, The Company has been informed that two law suits were concluded by the People's Court. The second-instance judgments were awarded against Wuyuan Wanshoushan Cemetery for approximately RMB29 million. The total disputed amounts of the remaining 5 proceedings are approximately RMB13 million as at the date of this Annual Report. We are still in the process of taking all necessary steps in reversing the judgements and vigorously defending against the proceedings. As of the date of this Annual Report, after taking into account of the legal opinions and the current status of the proceedings, the Directors are of the view that the proceedings will in the end result in a material adverse impact on the financial position and business operation of the Group is not probable and conclude that no provision shall necessarily be made. However, given the nature of the proceedings, it would be impossible to predict the outcome of the proceedings with a sufficient degree of certainty.

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. During the Year, we expended land of approximately 35,644 sq.m. to generate revenue from sale of burial plots. However, our total saleable area as at December 31, 2016 increased by approximately 203,800 sq.m. to approximately 1.81 million sq.m. from that of 1.61 million sq.m. as at December 31, 2015, as we completed to acquire the controlling equity interest in Shanting Xingtai and the land use rights for an additional piece of land for cemetery development purpose in Guanlingshan Cultural Cemetery.

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

As disclosed in the section of "Contingent Liabilities", the Company has been informed that two law suits were concluded by the People's Court in January 2017. The second-instance judgments were awarded against Wuyuan Wanshoushan Cemetery for approximately RMB29 million. The Company has also been informed that another lawsuit, involving approximately RMB6 million, was dropped by the plaintiff on March 9, 2017.

Save as disclosed herein, there was no other significant events that might affect the Group since the end of the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking ahead, we will remain an influential player of China's death care services industry and will continue to take the lead to drive the modernization of the death care business of the PRC, and promote the healthy development of the national death care culture with humanity, charity and environmental protection in mind. We will adhere to our strategic goals, look for suitable growth opportunities, strive for external development, consolidate the highly disintegrated resources of the PRC's death care industry, and boost our market share. We will also push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business operation, we will consolidate newly acquired businesses and raise their standards on a par with ours. Meanwhile, we will strive to make our cremation machine business to become an important segment of the Group's business. With our efforts to promoting the pre-need contract business and innovative ideas in our collaboration with local governments, we will strive to increase the percentage of our funeral services in the Group's business. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business in a more steady and sustainable pace, and stay focused on managing Fu Shou Yuan, a living entity that carries memories and emotions, with a view to consistently rewarding our investors with the best returns.

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), aged 59, 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 Investments Limited since December 2011 and a director of Perfect Score since November 2015. 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 19 years of experience in the death care services industry in the PRC and has served the Group for 19 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 vice 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 52, 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 in business administration from University of Southern California in August 1987.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Jisheng (王計生), aged 63, is the executive Director and the chief executive of the Company. He is also the chairman of the Strategy and Investment Development Committee of our Group. Mr. Wang is responsible for the overall management and business operation and strategic planning and business development of the Group. Mr. Wang has been the managing director of Shanghai 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 23 years of experience in the death care services industry in the PRC and has served the Group for more than 23 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 67, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 21 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.

Mr. Huang James Chih-Cheng, aged 58, 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 certified public accountant.

Mr. Ma Xiang (馬翔), aged 47, has over 20 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Qunlin (陳群林), aged 70, 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 64, 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 pursued a postgraduate master's degree majoring in global economics at the Economics Department of Eastern China Normal University (華東師範大學) between 1992 and April 1994. In September 1998, he participated in an Executive Study Tour organized in the U.S. by the State Economic and Trade Commission (國家經濟貿易委員會) and Morgan Stanley. He also completed a CEIBS-Wharton Joint Program in Corporate Governance and Board of Directors in August 2008. Mr. Luo holds an independent director certificate issued by the Shanghai Stock Exchange in April 2012 and a corporate governance certificate issued by the Hong Kong Institute of Directors in November 2004.

Mr. Ho Man (何敏), aged 48, 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, now known as Shanghai Dasheng Agriculture Finance Technology Co., Ltd.) 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 (Shenzhen Stock Exchange stock code: 300468), since February 2012, independent non-executive director of China Fire Safety Enterprise Group Limited (SEHK stock code: 0445) since July 2015, 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 listed on the National Equities Exchange and Quotations, since September 2015, and independent non-executive director of Infinity Financial Group (Holdings) Limited (SEHK stock code: 1152) since November 2016. Mr. Ho has over 19 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 61, 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.

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. Ge Qiansong (葛千松), aged 68, is the senior consultant to the chief executive of the Company. He has been deputy general manager and secretary to the board of directors of Shanghai Fu Shou Yuan since 1995. He was an officer of the Strategy and Investment Development Committee of our Group. 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 43 years of experience in the funeral service industry and has been in service with our Group for about 22 years. Mr. Ge worked for the Funeral Management Office of the Shanghai Civil Affairs Bureau from January 1977 to March 1992 as the deputy director and director of Shanghai Longhua Funeral House. From 1991 to 1993, Mr. Ge served in Xiao Ao (Japan) Co., Ltd. (日本曉奧公司), a company principally engaged in the provision of floral services, as a deputy general manager. He was the general manager of Shimazaki Co., Ltd. (日本島崎株式會社) from 1993 to 1995. Mr. Ge has been the chairman of the Technology and Cultural Committee of the China Funeral Association since 2012. Mr. Ge graduated with a diploma in politics from the Shanghai Normal University in July 1986. Mr. Ge completed the China CEO Management Innovation Executive Program organized by Shanghai Jiao Tong University in January 2005 and the continuous education courses organized by Tsinghua University in January 2008.

Ms. Yi Hua (伊華), aged 49, is the chief brand officer and 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 21 years of experience in the funeral service industry in the PRC and has been in service with our Group for nearly 21 years. She was the officer of the culture and education committee of the Group. 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 21 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. Yuan Zhenyu, Frank (袁振宇), aged 42, is our chief financial officer. He has 19 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 Master's degree in economics from Shanghai University of Finance and Economics (上海財經大學) and a Master's 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. Yuan was selected for the 10th cohort of the National Leading Accounting Talents Program, launched by the Ministry of Finance, in March 2015.

Mr. Zhao Yu (趙宇), aged 40, the Head of "Fu Shou Home" Department and the deputy head and secretary of the Preneed Business Development Committee of the Company and is responsible for leading the "Fu Shou Home" Department focusing on the analyses and development of preneed and funeral planning business. Mr. Zhao was our joint company secretary and the secretary to the Board of the Company. Before he took up the role of joint company secretary in December 2013, Mr. Zhao was a deputy general manager of the Company preparing for its listing. Mr. Zhao had acquired over 11 years of experience in servicing the corporate finance field before that. Since joining the Company in 2009, Mr. Zhao has been focusing on the death care industry and has been involved in the formulation, development and implementation of the Company's merger and acquisition strategies. From 2002 to 2009, he served as deputy general manager of Fu Ji Food and Catering Services Holdings Limited (SEHK stock code: 1175, now known as Fresh Express Delivery Holdings Group Co., Limited) and general manager of Fu Ji Food Services Group Financial Management Company. Mr. Zhao was awarded a master's degree in business administration by the American University in London in February 2002. Prior to that, he obtained a bachelor's degree in finance and banking in June 1998 from the Dongbei University of Finance & Economics.

Mr. Zhang Jingming (張經明), aged 59, is our company secretary. Mr. Zhang has extensive experience in corporate governance. Mr. Zhang joined a Hong Kong Stock Exchange listed company, Sinopec Shanghai Petrochemical Company Limited (stock code: 338) in 1978 and held various positions, including project manager of the international department, the securities affairs representative in Hong Kong, deputy director of the international department and deputy director of the board secretariat. During his employment with Sinopec Shanghai Petrochemical Company Limited, Mr. Zhang served as secretary of the board from June 1999 to June 2014, as director of the board secretariat from June 1999 to June 2011, as director of strategy research department in June 2001 to June 2013 and as general legal counsel from January 2005 to June 2014.

DIRECTORS' REPORT

The Board presents the directors' report together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

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 43 to the financial statements.

RESULTS OF OPERATIONS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 66 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2012 and 2016 is set out on page 161 in the section "Financial Summary" of this Annual Report.

BUSINESS REVIEW

During the year ended December 31, 2016, the Group realized the sale of 13,142 tombs and performed 16,751 funeral services and recorded total revenue of RMB1,267.7 million, made a net profit totalling RMB448.5 million, and net profit attributable to our shareholders of RMB339.0 million.

As at December 31, 2016, we owned up to 16 cemeteries (of which 13 were constructed and 3 was under construction), and were operating up to 11 funeral facilities throughout the PRC. We also generate revenue by providing entrusted management services to three small cemeteries. Our business coverage has expanded to 16 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, 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.

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.

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.

Important events

During the year ended December 31, 2016, the Group entered into a strategic cooperation agreement with the People's Government of Tai'an City, Shandong Province to invest and operate a cemetery in Tai'an City and entered into a strategic cooperation agreement with the People's Government of Bishan District of Chongqing Municipality to invest in and operate a cemetery and construct a new funeral home in Bishan District. The project in Tai'an City is currently under construction planning and the cemetery and funeral home in Bishan have started full scale construction.

In September 2016, the Group entered into an investment agreement with the Bureau of Civil Affairs of Xuanzhou District of Xuancheng City in Anhui Province for the construction, operation and management of the Mashan Ecological Cemetery (馬山生態陵園) in Xuanzhou District. Currently, the construction of the funeral home in the cemetery has already begun. During the Year, the Group also entered into an agreement to acquire Luoyang Xianhe Memorial Cemetery Co., Ltd. (洛陽仙鶴紀念陵園有限公司). The acquisition was completed in January 2017 and commenced to consolidate its financial statements since January 2017.

In addition, we also completed the acquisition of 100% equity in Zaozhuang Shanting Xingtai during the Year and commenced to consolidate its financial statements since November 1, 2016.

Besides the above events in relation to the traditional burial and funeral business, we have also acquired certain achievement in the cremation machine business and pre-need business.

We obtained accredited environmental testing and authoritative recognition of national expert level on our self-developed environmental-friendly cremation machine in June 2016 and in December 2016 respectively. The first batch of products were exported to Mongolia and Russia in December 2016. We believe our environmental friendly cremator business will make considerable contribution to the Group's business growth in 2017 and afterwards.

During the Year, we also established pre-need business department, launched trial sale of pre-need contract for funeral services, and achieved encouraging feedbacks. This is a significant move for the Group to strategically tap the pre-need contract market.

Events occurred since the end of the financial year

For details of the events occurred since the end of the financial year of the Group, please refer to the section of "Management Discussion and Analysis" of this Annual Report.

Future development

For more than three 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. The Chinese government is putting forward the reform of "separation of management and monitoring functions" to the death care industry and we have been actively preparing for the reform.

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 Company has also decided to step up its resources to expand its efforts in catering for the opportunities in the pre-need market.

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. As of December 2016, the average burial plot of our cemeteries covers an area of 3.05 square meters, and that of our Dashushan Cemetery in Anhui only covers an area of 0.99 square meters.

To resolve the air pollution problem caused during cremation, the Group has researched and developed a late-model environmental-friendly cremator. On December 25, 2016, the national expert panel for cremator evaluation, organized by the 101 Institute of the Ministry of Civil Affairs of the PRC and commissioned by Shanghai Civil Affairs Bureau, had the technical review meeting at Fu Shou Yuan Environmental Protection Machinery Manufacture Co., Ltd. in Guangde, Anhui Province to assess the performance of the new environmental-friendly "Jiesheng smart cremators" of the Group. The panel unanimously agreed to approve the smart cremator and gave their evaluation opinion, according to which, Fu Shou Yuan's Jiesheng smart cremators are in compliance with the parameters and indicators established for the evaluation with its pollutant emission indicators in conformity with the requirements of the Emission Standard of Air Pollutants for Crematory (GB 13801-2015). 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.

For more details of the environmental policies and performance of the Group, please refer to the 2016 sustainability report of the Company.

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, 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.

Relationships with stakeholders

The Group's success 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. The Group actively takes various measures to safeguard the safety and health of employees in daily work. On the other hand, we actively organize various employee activities, from which employees can feel home-like warmness.

Customers

The Group is committed to providing quality services and products to our customers while maintaining long-term profitability, business and earnings 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.

For more details of the relationship with stakeholders of the Group, please refer to the 2016 sustainability report of the Company.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK2.60 cents per Share for the year ended December 31, 2016 (2015: HK$2.39 cents per Share). The final dividend will be payable before the end of June 2017 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 Wednesday, May 10, 2017 to Monday, May 15, 2017, 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 Tuesday, May 9, 2017.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Monday, May 22, 2017 to Wednesday, May 24, 2017, 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 Friday, May 19, 2017.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 43 to the audited consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2016, purchases from the Group's five largest suppliers accounted for 40.5% (2015: 32.8%) of the Group's total purchases and purchases from our single largest supplier accounted for 17.5% (2015: 11.8%) of the Group's total purchases.

During the year ended December 31, 2016, 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 associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interests in the Group's five largest suppliers and customers.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended December 31, 2016 are set out in note 13 to the audited consolidated financial statements.

SHARE CAPITAL

During the year ended December 31, 2016, 13,064,281 ordinary shares were issued by exercise of share options. The total consideration received by the Company for the above issue is HK$15,984,481. Details of the movements in the Company's share capital during the year ended December 31, 2016 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, 2016 are set out in notes 33 and 45 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, 2016, are set out in note 45 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, 2016.

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, 2016, the Group made approximately RMB593,000 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, 2016, we had used approximately HK$272.0 million towards acquiring new lands, approximately HK$25.2 million to set up new funeral facilities, approximately HK$1,009.6 million for mergers and acquisitions of other cemeteries and funeral facilities in the PRC, and approximately HK$46.1 million to expand 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 afterwards.

DIRECTORS

The Directors during the year ended December 31, 2016 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. Ma Xiang[2] (appointed on January 12, 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

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 108 of the Articles of Association, Mr. Bai Xiaojiang, Mr. Wang Jisheng, Mr. Chen Qunlin and Mr. Luo Zhuping 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, 2016 for a term of three years commencing from December 3, 2016, 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 to the Board pursuant to the respective letters of appointment dated December 3, 2016, for a term of three year commencing from December 3, 2016. 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, 2016 or at any time during the year ended December 31, 2016. 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 AND CONTROLLING SHAREHOLDERS' 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, 2016. 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.

On September 13, 2016, Chief Union transferred all of its shares in the Company to Perfect Score. As such, Chief Union has ceased to be or no longer deemed to be a controlling shareholder of the Company with the meaning of the Listing Rules since September 13, 2016, the Undertaking given by Chief Union have lapsed and Chief Union has been released from the relevant restrictions imposed on it.

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, 2016.

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, 2016 are set out in Note 9 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, 2016.

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 9.51% of the issued shares 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, 2016, 50,000,000 options were granted by the Company under the Share Option Scheme.

As at 31 December 2016, the total number of Shares available for issue upon exercise of the options granted under the Share Option Scheme was 140,270,000 Shares (representing 6.67% of the issued shares of the Company as at the date of this Annual 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, 2016:

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 24, 2016	Options granted on April 27, 2016	Options balance outstanding as at January 1, 2016	Options exercised during the year ended December 31, 2016	Options lapsed during the year ended December 31, 2016	Options cancelled during the year ended December 31, 2016	Options outstanding as at December 31, 2016	Exercisable period
Directors											
Bai Xiaojiang	August 5, 2014	4.14	4.01	—	—	2,000,000	—	—	—	2,000,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	3,000,000	—	—	—	3,000,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020[2]
	April 27, 2016	5.466	5.57	—	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020[2]
Tan Leon Li-an	August 5, 2014	4.14	4.01	—	—	400,000	—	—	—	400,000	August 5, 2016 to August 4, 2024[1]
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	—	500,000	March 24, 2018 to March 23, 2020[2]
Wang Jisheng	August 5, 2014	4.14	4.01	—	—	2,000,000	—	—	—	2,000,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	3,000,000	—	—	—	3,000,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	2,000,000	—	—	—	—	—	2,000,000	March 24, 2018 to March 23, 2020[2]
	April 27, 2016	5.466	5.57	—	1,000,000	—	—	—	—	1,000,000	April 27, 2018 to April 26, 2020[2]

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 24, 2016	Options granted on April 27, 2016	Options balance outstanding as at January 1, 2016	Options exercised during the year ended December 31, 2016	Options lapsed during the year ended December 31, 2016	Options cancelled during the year ended December 31, 2016	Options outstanding as at December 31, 2016	Exercisable period
Lin Hung Ming (also known as Lin Hon Min) (Note 3)	August 5, 2014	4.14	4.01	—	—	400,000	—	(400,000)	—	—	August 5, 2016 to August 4, 2024[1]
Ma Xiang	March 24, 2016	5.824	5.54	500,000	—	—	—	—	—	500,000	March 24, 2018 to March 23, 2020[2]
Lu Hesheng	August 5, 2014	4.14	4.01	—	—	400,000	—	—	—	400,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	500,000	—	—	—	500,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	500,000	—	—	—	—	—	500,000	March 24, 2018 to March 23, 2020[2]
Huang James Chih-Cheng	August 5, 2014	4.14	4.01	—	—	400,000	—	—	—	400,000	August 5, 2016 to August 4, 2024[1]
Chen Qunlin	August 5, 2014	4.14	4.01	—	—	200,000	—	—	—	200,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	300,000	—	—	—	300,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	—	300,000	March 24, 2018 to March 23, 2020[2]

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 24, 2016	Options granted on April 27, 2016	Options balance outstanding as at January 1, 2016	Options exercised during the year ended December 31, 2016	Options lapsed during the year ended December 31, 2016	Options cancelled during the year ended December 31, 2016	Options outstanding as at December 31, 2016	Exercisable period
Luo Zhuping	August 5, 2014	4.14	4.01	—	—	200,000	—	—	—	200,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	300,000	—	—	—	300,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	—	300,000	March 24, 2018 to March 23, 2020[2]
Ho Man	August 5, 2014	4.14	4.01	—	—	200,000	—	—	—	200,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	300,000	—	—	—	300,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	—	300,000	March 24, 2018 to March 23, 2020[2]
Wu Jianwei	August 5, 2014	4.14	4.01	—	—	200,000	—	—	—	200,000	August 5, 2016 to August 4, 2024[1]
	March 19, 2015	3.126	3.16	—	—	300,000	—	—	—	300,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	300,000	—	—	—	—	—	300,000	March 24, 2018 to March 23, 2020[2]

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 24, 2016	Options granted on April 27, 2016	Options balance outstanding as at January 1, 2016	Options exercised during the year ended December 31, 2016	Options lapsed during the year ended December 31, 2016	Options cancelled during the year ended December 31, 2016	Options outstanding as at December 31, 2016	Exercisable period
Other employees of the Group (in aggregate)	August 5, 2014	4.14	4.01	—	—	35,200,000	930,000[4]	—	—	34,270,000	August 5, 2016 to August 4, 2018[2]
	March 19, 2015	3.126	3.16	—	—	42,300,000	—	—	—	42,300,000	March 19, 2017 to March 18, 2019[2]
	March 24, 2016	5.824	5.54	41,300,000	—	—	—	—	—	41,300,000	March 24, 2018 to March 23, 2020[2]
Total				48,000,000	2,000,000	91,600,000	930,000	(400,000)	—	140,270,000	

Note 1: 50% of these options are exercisable from the second anniversary day of the date of grant and 50% are exercisable from the third anniversary day of the date of grant. These options will expire on the tenth anniversary day of the date of grant.

Note 2: 50% of these options are exercisable from the second anniversary day of the date of grant and 50% are exercisable from the third anniversary day of the date of grant. These options will expire on the fourth anniversary day of the date of grant.

Note 3: Lin Hung Ming has resigned as Director on January 12, 2016.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$5.07.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended December 31, 2016.

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 4.76% of the issued shares of the Company as at the date of this Annual Report;

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

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

(c) 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 for an aggregate of 57,613,169 Shares (representing approximately 2.74% of the total issued shares 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.

As at the date of this Annual Report, a total of 26,920,417 Shares have been issued upon exercise of the options granted under the Pre-IPO Share Option Scheme, and the total number of Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme was 30,692,752 Shares, representing 1.46% of the total issued shares of the Company.

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

Name of Grantees	Date of grant	Exercise price per share (RMB)	Options balance outstanding as at January 1, 2016	Options granted during the year ended December 31, 2016	Options exercises during the year ended December 31, 2016	Options lapsed/ cancelled during the year ended December 31, 2016	Options outstanding as at December 31, 2016	Exercisable period
Directors								
Bai Xiaojiang	August 8, 2013	0.9	3,453,452	—	—	—	3,453,452	August 8, 2015 to August 7, 2017
Wang Jisheng	August 8, 2013	0.9	3,453,452	—	—	—	3,453,452	August 8, 2015 to August 7, 2017
Substantial Shareholders								
Ge Qiansong (Senior Management)	August 8, 2013	0.9	2,877,877	—	2,877,877[1]	—	—	August 8, 2015 to August 7, 2017
Other employees (in aggregate)	August 8, 2013	0.9	33,534,942	—	9,256,404[2]	—	24,278,538	August 8, 2015 to August 7, 2017
Total			**43,319,723**	**—**	**12,134,281**	**—**	**31,185,442**	

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$5.16.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$5.21.

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

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, 2016.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at December 31, 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interest in the Shares

Name of Directors	Capacity	Nature of Interests	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	4.59%
Wang Jisheng	Interest in a controlled corporation (Note 2)	Long Position	96,600,000	4.59%
Lu Hesheng	Interest in a controlled corporation (Note 3)	Long Position	27,600,000	1.31%

Notes:

1. Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.59% 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 4.59% 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 1.31% 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, 2016, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2016, 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	17.76%
Mr. Tan Tize Shune (also known as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	373,518,000	17.76%
Perfect Score	Beneficial owner	Long position	483,000,000	22.97%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	22.97%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	22.97%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	22.97%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	22.97%
UBS Trustees (BVI) Limited	Trustee	Long position	208,886,000	9.93%
Double Riches	Beneficial owner	Long position	119,445,000	5.68%
Ge Qiansong	Interest in a controlled corporation (Note 6)	Long position	119,445,000	5.68%
Sunshine Life Insurance Co., Ltd* (陽光人壽保險股份有限公司)	Beneficial owner (Note 7)	Long position	151,482,000	7.20%
Sunshine Insurance Group Co., Ltd* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 7)	Long position	151,482,000	7.20%

* 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 17.76% of the issued share capital of the Company in which FSG Holding is interested in.

2. Perfect Score is a direct wholly-owned subsidiary of Zhongfu and Zhongfu is deemed or taken to be interested in approximately 22.97% of the issued share capital of the Company in which Perfect Score is interested in.

3. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu is deemed or taken to be interested in approximately 22.97% of the issued share capital of the Company in which Perfect Score is interested in.

4. Hongfu is owned by NGO 1 as to 50% and NGO 1 is deemed or taken to be interested in approximately 22.97% of the issued share capital of the Company in which Perfect Score is interested in.

5. Hongfu is owned by NGO 2 as to 50% and NGO 2 is deemed or taken to be interested in approximately 22.97% of the issued share capital of the Company in which Perfect Score is interested in.

6. 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 5.68% of the issued share capital of the Company in which Double Riches is interested in.

7. 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 7.20% 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, 2016, 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, 2016 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 41 to the audited consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2016.

CONNECTED TRANSACTION

Shandong World Trade Centre and Shandong Fu Shou Yuan entered into a loan agreement on January 1, 2016 and renewed on December 31, 2016, pursuant to which Shandong World Trade Centre provided a shareholder loan to Shandong Fu Shou Yuan. As at December 31, 2016, the loan remaining outstanding amounted to approximately RMB34,360,000. The interest rate is approximately 5.06% 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, 2016.

AUDITOR

The financial statements of the Group for the year ended December 31, 2016 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 17, 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2016.

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, 2016.

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, 2016.

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, 2016.

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. Ma Xiang[(1)]
Mr. Lu Hesheng
Mr. Huang James Chih-Cheng

Independent Non-executive Directors

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

Note:

(1) With effect from January 12, 2016, Mr. Lin Hung Ming has resigned as non-executive Director and Mr. Ma Xiang has been appointed as non-executive Director.

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, 2016, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise, and independent non-executive directors representing at least one-third of the board of the directors.

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

Board Meetings, Board Committees Meetings and Annual General Meeting

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

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

During the year ended December 31, 2016. The Board held 5 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, 2016 are set out as follows:

	No. of Meetings Attended/Held					
Name of Directors	**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**Compliance Committee Meetings**	**Annual General Meeting**
Executive Directors						
Mr. Bai Xiaojiang	5/5	—	3/3	—	—	1/1
Mr. Tan Leon Li-an	4/5	—	—	2/2	—	0/1
Mr. Wang Jisheng	5/5	—	3/3	—	—	1/1
Non-executive Directors						
Mr. Lin Hung Ming (also known as Lin Hon Min) (resigned on January 12, 2016)	1/1	—	—	—	—	—
Mr. Ma Xiang	4/4	—	—	—	—	1/1
Mr. Lu Hesheng	5/5	—	—	—	—	1/1
Mr. Huang James Chih-Cheng	5/5	2/2	—	—	—	1/1
Independent non-executive Directors						
Mr. Chen Qunlin	5/5	—	3/3	2/2	1/2	1/1
Mr. Luo Zhuping	5/5	2/2	3/3	2/2	2/2	1/1
Mr. Ho Man	5/5	2/2	3/3	—	2/2	1/1
Ms. Wu Jianwei	5/5	—	—	—	2/2	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, 2016 for a term of three years commencing from December 3, 2016.

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, 2016 for a term of three years commencing from December 3, 2016. 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.

In accordance with the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being or, if the number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and, being eligible, offer themselves for re-election.

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

Directors' Responsibilities for Financial Statements

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

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

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

Responsibilities of and Delegation by the Board

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

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

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

Independent Non-Executive Directors

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

Continuous Professional Development

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

During the year ended December 31, 2016, all Directors, including Mr. Bai Xiaojiang, Mr. Tan Leon Li-an, Mr. Wang Jisheng, Mr. Ma Xiang, 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 regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group, and Mr. Bai Xiaojiang, Mr. Wang Jisheng, Mr. Ma Xiang, Mr. Lu Hesheng, Mr. Huang James Chih-Cheng, Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei have attended a training regarding corporate governance, environmental, social and governance reporting and information disclosure.

Chairman and Chief Executive

The positions of the chairman ("**Chairman**") and the chief executive ("**Chief Executive**") of the Company are held separately. The role of Chairman is held by Mr. Bai Xiaojiang, and the role of 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.

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, 2016, 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.

During the year ended December 31, 2016, the Remuneration Committee held 2 meetings. It had reviewed the share options granted to the eligible participants on March 24, 2016 and April 27, 2016, 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, 2016, the Nomination Committee held 3 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, 2016, the Compliance Committee held 2 meetings. It had reviewed the policies and practices on corporate governance and made recommendation to the Board, reviewed the training and continuous professional development of Directors and senior management, the policies and practices on compliance with legal and regulatory requirements, the codes of conduct applicable to employees and Directors and the compliance with the corporate governance code and disclosure in the corporate governance report.

BOARD DIVERSITY

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

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

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Details of the remuneration of the Directors are set out in Note 9 to the audited consolidated financial statements. Save as disclosed therein, there is other 5 individuals of senior management. Pursuant to paragraph B.1.5 of the CG Code, their remuneration by band for the year ended December 31, 2016 is set out below:

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

EXTERNAL AUDITOR'S REMUNERATION

During the year ended December 31, 2016, 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	
	2016	2015
Services rendered for the Group	**RMB'000**	RMB'000
Audit Services	**2,500**	3,100
Interim Results Review	**1,000**	700
Other service	**300**	250
Total Fees	**3,800**	4,050

The Audit Committee was satisfied that the non-audit services in 2016 did not affect the independence of the auditor.

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. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 maters; and all branches and subsidiaries implement direct risk management and internal control function for their respective operations.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

— is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules

— conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission

— has included in the code of conduct of the Company a strict prohibition on the unauthorised use of confidential or inside information

— ensures, through the Company's own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information

The Group has commenced risk assessment by conducting risk ranking, and in the previous year, the significant risks were under control and their rankings have dropped. In addition, the Group has formulated risk management plan to ensure the identification, assessment, management, control and reporting of all significant risks of the Group are carried out according to a unified guideline, and are reported to the senior management, Audit Committee and the Board when necessary. Such guideline stipulates the group risk management policies and procedures which are carried out with the common risk management methods.

During the year ended December 31, 2016, the Board has annually reviewed the effectiveness and efficiency of the implementation of its risk management and internal control systems, 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, compliance committee and/or the Board semi-annually. There was no significant risks found by the independent internal control consultant in the risk assessment.

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, risk management, 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, 2016.

COMPANY SECRETARY

The company secretary of the Company is Mr. Zhang Jingming ("**Mr. Zhang**"). Mr. Zhang was appointed in replacement of Ms. Wong Wai Ling ("**Ms. Wong**") as a joint company secretary of the Company on August 17, 2016. On March 17, 2017, Mr. Zhao Yu ("**Mr. Zhao**") resigned as a joint company secretary of the Company. At present, Mr. Zhang is the sole company secretary of the Company and is responsible for investor relations, corporate finance and corporate governance of the Group.

Each of Mr. Zhang, 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, 2016.

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 of the Company 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.

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 54255151 (ext. 265/266)
Email: ir@shfsy.com

Constitutional Documents

During the year ended December 31, 2016, 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)

OPINION

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 66 to 160, which comprise the consolidated statement of financial position as at December 31, 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill arising from acquisitions	
We identified the impairment assessment of goodwill arising from acquisitions of businesses as a key audit matter due to significance of the Group's goodwill in the context of the Group's consolidated financial statements, combined with the judgments involved in management's impairment assessment of goodwill. As disclosed in Note 17 to the consolidated financial statements, as at December 31, 2016, the carrying amount of goodwill amounted to approximately RMB291 million. As set out in Note 4 to the consolidated financial statements, the impairment assessment of goodwill is dependent on certain significant inputs and estimations that involve management's judgments. Details of such judgements are disclosed in Note 17.	Our procedures in relation to the impairment assessment of goodwill arising from acquisitions included: • Obtaining an understanding of management controls over the impairment assessment of goodwill; • Examining the determination of recoverable amounts which are the value in use of cash-generating units to which goodwill has been allocated and obtaining an understanding of financial positions and future prospects of respective cash-generating units; • Evaluating the reasonableness of key inputs and assumptions used by management in estimations of value in use, including projections of cash flows, growth rates and discount rates applied; • Comparing cash flow projections to supporting evidence, such as approved budgets, and evaluating the reasonableness of these budgets with reference to the past performance and future prospects of respective cash-generating units as well as our knowledge of the business; • Comparing the growth rates used to historical growth rates for business of respective cash-generating units; and • Assessing the reasonableness of management's impairment assessment of goodwill in accordance with the requirement of the relevant accounting standard.

Key audit matters	How our audit addressed the key audit matters
Provisions for litigation claims	
We identified litigation claims against the Group as a key audit matter due to their significance in the context of the Group's consolidated financial statements, combined with the fact that the evaluation of whether it is more likely than not that present obligations exist in the litigation claims is based on a significant degree of management judgement. As disclosed in Note 46 to the consolidated financial statements, the Group was subject to litigation claims amounting to approximately RMB42 million as at December 31, 2016. The directors of the Company were of the view that no provision shall necessarily be made on the litigation claims after taking into account of the opinion of independent legal counsels and the status of the litigations.	Our procedures in relation to contingent liabilities for litigation and claims included: • Understanding the background, status and potential exposures in respect of these litigation claims by enquiring with the management and the Group's internal legal counsel; • Reviewing the relevant documents in relation to the claims and the related legal opinions that the management has obtained from the Group's independent legal counsels, including their views on the likely outcome of each litigation claims and the magnitude of potential exposure; • Challenging management's estimates using information and evidences gathered; and • Assessing whether the Group's financial statements have adequately disclosed the litigation claims.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Joseph Wing Ming Chan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 17, 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	5	**1,267,655**	1,107,960
Cost of sales and services		**(265,303)**	(248,161)
Gross profit		**1,002,352**	859,799
Other income and gains, net	6	**58,823**	63,183
Distribution and selling expenses		**(217,517)**	(205,442)
Administrative expenses		**(278,874)**	(250,135)
Share of profits of a joint venture		**485**	—
Finance costs	7	**(8,256)**	(7,799)
Profit before taxation	8	**557,013**	459,606
Income tax expense	10	**(108,508)**	(94,437)
Profit and total comprehensive income for the year		**448,505**	365,169
Profit and total comprehensive income attributable to:			
Owners of the Company		**338,974**	284,444
Non-controlling interests		**109,531**	80,725
		448,505	365,169
		RMB cents	RMB cents
Earnings per share - Basic	12	**16.2**	13.7
- Diluted	12	**15.7**	13.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property and equipment	13	**377,429**	361,314
Prepaid lease payments	14	**21,620**	20,029
Investment property	15	**6,509**	—
Intangible assets	16	**14,035**	14,388
Goodwill	17	**290,634**	267,661
Deposits paid for acquisition of land use rights		**49,329**	60,157
Cemetery assets	18	**1,104,531**	1,048,331
Investment in a joint venture	19	**30,485**	30,000
Deposit for acquisition of a subsidiary	20	**—**	38,001
Restricted deposits	21	**32,216**	28,632
Deferred tax assets	22	**27,513**	29,523
Other long-term assets	23	**13,800**	14,400
		1,968,101	1,912,436
Current assets			
Inventories	24	**372,407**	339,522
Trade and other receivables	25	**62,954**	34,846
Time deposits	26	**293,850**	—
Bank balances and cash	27	**1,238,906**	1,276,761
		1,968,117	1,651,129
Current liabilities			
Trade and other payables	28	**287,642**	277,908
Deferred income	30	**18,200**	15,694
Income tax liabilities		**114,884**	126,059
Borrowings	29	**60,450**	63,450
		481,176	483,111
Net current assets		**1,486,941**	1,168,018
Total assets less current liabilities		**3,455,042**	3,080,454

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred income	30	**223,070**	198,450
Other long-term liability		**5,910**	—
Loan from non-controlling interests	31	**34,360**	38,173
Borrowings	29	**73,520**	104,020
Deferred tax liabilities	22	**89,142**	90,042
		426,002	430,685
Net assets		**3,029,040**	2,649,769
Capital and reserves			
Share capital	32	**127,470**	126,601
Reserves	33	**2,408,710**	2,109,328
Equity attributable to owners of the Company		**2,536,180**	2,235,929
Non-controlling interests		**492,860**	413,840
Total equity		**3,029,040**	2,649,769

The consolidated financial statements on page 66 to 160 were approved and authorized for issue by the Board of Directors on March 17, 2017 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, 2016

	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, 2015	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	–	–	–	–	–	–	–	–	138,026	138,026
Dividends recognized as distributions (Note 11)	–	(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
Profit and total comprehensive income for the year	–	–	–	–	–	–	338,974	338,974	109,531	448,505
Dividends recognized as distributions (Note 11)	–	(88,567)	–	–	–	–	–	(88,567)	–	(88,567)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(69,832)	(69,832)
Transfer to statutory reserve	–	–	–	9,727	–	–	(9,727)	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	39,200	39,200
Disposal of partial equity interests in a subsidiary	–	–	–	–	–	–	–	–	121	121
Exercise of share options	869	21,428	–	–	–	(8,583)	–	13,714	–	13,714
Share-based compensation	–	–	–	–	–	36,130	–	36,130	–	36,130
At December 31, 2016	**127,470**	**1,123,394**	**84,667**	**101,633**	**26,784**	**74,233**	**997,999**	**2,536,180**	**492,860**	**3,029,040**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**557,013**	459,606
Adjustments for:		
Finance costs	**8,256**	7,799
Interest income	**(35,727)**	(39,329)
Depreciation of property and equipment	**30,361**	25,292
Amortization of cemetery assets	**34,515**	29,484
Amortization of intangible assets and prepaid lease payment	**1,107**	848
Amortization of other long-term assets	**600**	—
Net loss (gain) on disposal of property and equipment	**1,636**	(212)
Gain on a bequest from a customer	**(3,337)**	—
Gain on a fair value changes of an investment property	**(3,069)**	—
Share of profits of a joint venture	**(485)**	—
Expense recognized in respect of equity-settled share based payments	**36,130**	29,370
Operating cash flows before movements in working capital	**627,000**	512,858
Increase in restricted deposits	**(3,584)**	(4,902)
Increase in cemetery assets and inventories	**(15,015)**	(58,481)
Increase in deposit paid for acquisition of land as cemetery assets	**(49,329)**	—
Increase in trade and other receivables	**(16,910)**	(9,332)
Increase (decrease) in trade and other payables	**7,632**	(5,090)
Increase in deferred income	**27,105**	24,266
Cash generated from operations	**576,899**	459,319
Income taxes paid	**(121,476)**	(92,741)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**455,423**	366,578
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	**(47,211)**	(48,416)
Purchase of intangible assets	**(391)**	(1,052)
Addition to and deposits paid for acquisition of land use rights	**(1,954)**	(60,157)
Proceeds on disposal of property and equipment	**639**	422
Contract fee prepaid for operating a burial project	**—**	(14,400)
Advance of entrusted loans	**—**	(4,210)
Acquisition of subsidiaries	**(22,269)**	(259,057)
Placement of performance bond for a new project	**(8,261)**	—
Interest received	**32,797**	38,937
Deposit for acquisition of a subsidiary	**—**	(33,501)
Placement of time deposits	**(293,850)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(340,500)**	(381,434)

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**39,950**	208,420
Repayment of bank borrowings	**(73,450)**	(88,900)
Capital contribution from non-controlling interest	**39,200**	24,554
Repayment of loan from non-controlling interests	**(3,813)**	(21,396)
Interest paid	**(10,101)**	(8,156)
Disposal of partial equity interests in a subsidiary	**121**	—
Dividends paid to non-controlling interests	**(69,832)**	(58,504)
Dividends paid to owners of the Company	**(88,567)**	(72,919)
Proceeds from exercise of share options	**13,714**	11,761
NET CASH USED IN FINANCING ACTIVITIES	**(152,778)**	(5,140)
NET DECREASE CASH AND CASH EQUIVALENTS	**(37,855)**	(19,996)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,276,761**	1,296,757
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,238,906**	1,276,761

1. GENERAL

Fu Shou Yuan International Group Limited (the "Company") is a company incorporated on January 5, 2012 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands, and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on December 19, 2013. The addresses of the registered office and the principal place of business of the Company are disclosed in the annual report. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the sale of burial plots, provision of funeral services and provision of cemetery maintenance services as set out in Note 43.

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 AMENDMENTS TO 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 IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IFRS 10, IFRS12 and IAS 28	*Investment entities: Applying the Consolidation Exception*
Amendments to IFRSs	*Annual Improvements to IFRSs 2012-2014 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.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *continued*

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 7	*Disclosure Initiative4*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *continued*

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities and general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described as follows:

- all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortized 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 amortized 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 fair value through other comprehensive income ("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 recognized 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 recognized.

- 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.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *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 recognize 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: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes 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 anticipate that the application of IFRS 15 in the future may have a material 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 completed the detailed review.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *continued*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under IAS 17, the Group has already recognized an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB23.83 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the directors of the Company are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In additional, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment property which is measured at fair value at the end of each reporting period, as explained in the accounting policies as below.

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 share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or IAS 36.

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.

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Changes in the Group's ownership interests in existing subsidiaries – *continued*

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Business combinations – *continued*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary'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 the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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 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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) 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 (or group of cash-generating units).

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.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

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 or the portion so classified is accounted for in accordance with IFRS 5. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the 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 recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in joint ventures – *continued*

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 recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of IAS 39, 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 the relevant 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 recognized 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 recognized 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 recognized 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 recognized in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

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.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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 of burial plots has passed; and revenue from sale of cremation machines is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

Revenue from the provision of cemetery maintenance services is deferred and amortized on a straight-line basis over the remaining service period. The contract price for the cemetery maintenance services is based on a nominal amount, which does not represent the fair value of such services. The Group 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.

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, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Government grants

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

Government grants that 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to the directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair values determined at the grant-date fair value of the equity-settled payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

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

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

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

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

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

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property and equipment – *continued*

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.

Investment property

Investment property are properties held for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognized.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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, time 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).

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Impairment of financial assets

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

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

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

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

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial liabilities and equity instruments – continued

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by group entities are recorded at the proceeds received, net of direct issue costs.

Effective interest method

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

Financial liabilities

Financial liabilities including trade and other payables, 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.

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).

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

The impairment assessment of goodwill is dependent on certain significant inputs and estimations that involve management's judgements, including the calculation of the value in use of each cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2016, the carrying amounts of goodwill are approximately RMB290,634,000 (2015: RMB267,661,000). Details of recoverable amount calculation are disclosed in Note 17.

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, 2016, the carrying amounts of property and equipment are approximately RMB377,429,000 (2015: RMB361,314,000). No impairment indicators on property and equipment were identified during the year ended December 31, 2016 and 2015. Details of movement are disclosed in Note 13. As at December 31, 2016, the carrying amounts of intangible assets are approximately RMB14,035,000 (2015: RMB14,388,000). No impairment was recorded for the intangible assets during the year ended December 31, 2016 and 2015. Details of movement are disclosed in Note 16.

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, 2016, the carrying amounts of deferred income are approximately RMB241,270,000 (2015: RMB214,144,000), as disclosed in Note 30.

Estimated cost on renewing land use right

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 of the Company, such cost was not significant during the years ended December 31, 2016 and 2015.

Estimated provisions for litigation claims

The Group evaluates whether a present obligation exists under litigation claim after taking into account all available evidence, including the opinion of experts. A provision is recognized for litigation claim if the directors of the Company consider it is more likely than not that present obligation exists and a reliable estimate can be made on the settlement amount of the claim. If it is more likely than not that no present obligation exists, the Group should disclose a contingent liability, unless the possibility of any transfer of economic benefits in settlement is remote. Details of the contingent liabilities of the Group as at December 31, 2016 are disclosed in Note 46. As at December 31, 2016, the directors of the Company are of the view that no provision shall necessarily be made on litigation claims after taking into account of the opinion of experts and the status of the litigations.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Group's President, 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.
- Others - include auxiliary services such as provision of landscape and garden design services; and production and sale of cremation machines and the related maintenance services.

Segment revenues and results

	Burial services							
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000	Sub-total RMB'000	Funeral services RMB'000	Others RMB'000	Segment total RMB'000	Eliminated RMB'000	Total RMB'000
For the year ended December 31, 2016								
External Sales	1,093,127	18,682	1,111,809	142,288	13,558	1,267,655	—	1,267,655
Inter-segment sales	—	—	—	—	3,922	3,922	(3,922)	—
Total	1,093,127	18,682	1,111,809	142,288	17,480	1,271,577	(3,922)	1,267,655
Segment profit	896,863	7,267	904,130	92,429	5,993	1,002,552	(200)	1,002,352
Other income and gains, net								58,823
Distribution and selling expenses								(217,517)
Administrative expenses								(278,874)
Share of profit of a joint venture								485
Finance costs								(8,256)
Profit before taxation								557,013

5. REVENUE AND SEGMENT INFORMATION – *continued*

Segment revenues and results – *continued*

	Burial services							
	Sale of burial plots RMB'000	Cemetery maintenance services RMB'000	Sub-total RMB'000	Funeral services RMB'000	Others RMB'000	Segment total RMB'000	Eliminated RMB'000	Total 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								459,606

The accounting policies of the operating segments are similar to those of the Group's accounting policies as described in Note 3. 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 share of profit of a joint venture. 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

Substantially all of the Group's identifiable assets and liabilities are located in the PRC.The Group's revenue from external customers by geographical location are detailed below:

	2016 RMB'000	2015 RMB'000
The People's Repulic of China ("PRC")	**1,259,777**	1,107,960
Other countries	**7,878**	—
	1,267,655	1,107,960

5. REVENUE AND SEGMENT INFORMATION – *continued*

Information about major customers

No single customer accounted for 10% or more of the Group's revenue during the years ended December 31, 2016 and 2015.

Revenue from major products and services

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

	2016	2015
	RMB'000	RMB'000
Burial Services:		
Sale of burial plots		
Customized burial (note a)	**274,499**	214,468
Artistic burial (note b)	**448,867**	357,016
Traditional burial	**213,522**	232,944
Lawn burial (note c)	**48,954**	49,590
Green burial (note d)	**15,894**	12,860
Indoor burial	**14,679**	11,804
Other burial-related services (note e)	**76,712**	65,492
Cemetery maintenance services	**18,682**	16,002
Subtotal	**1,111,809**	960,176
Funeral services	**142,288**	140,124
Others	**17,480**	12,352
Inter-segments elimination	**(3,922)**	(4,692)
	1,267,655	1,107,960

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.

5. REVENUE AND SEGMENT INFORMATION – *continued*

Revenue from major products and services – *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. Up to April 30, 2016, except for Henan Fu Shou Yuan Industrial Company Limited ("Henan Fu Shou Yuan"), Jinzhou City Maoshan Anling Company Limited ("Jinzhou Maoshan Anling"), Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd ("Guanlingshan Cultural Cemetery"), Wuyuan Wanshoushan Lingyuan Co., Ltd ("Wuyuan Wanshoushan Cemetery") and Anyang Wulong Civil Service Co., Ltd ("Anyang Tianshouyuan Cemetery"), subsidiaries of the Group, where 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.

On 24 March 2016, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly published Caishui [2016] No. 36 (Circular 36), which provides the detailed implementation guidance on the further rollout of the Value-Added Tax (VAT) reform to sectors such as construction, real estate, financial services and lifestyle services under which the sales in such sectors are subject to VAT instead of business tax. Circular 36 takes effect from 1 May 2016 which applies to the business of the Group. As such, starting from May 2016, except for Jinzhou Maoshan Anling where revenue derived from sales of the burial plots is subject to a value-added tax ("VAT") of 6%, revenue derived from sales of the burial plots of other group entities is exempt from VAT tax since the implementation of Circular 36.

6. OTHER INCOME AND GAINS, NET

	2016 RMB'000	2015 RMB'000
Other income:		
Interest income on bank deposits	35,727	39,329
Government grants (note)	10,721	15,101
Management service income	3,242	3,984
	49,690	58,414
Net gains and losses:		
Net (loss) gain on disposal of property and equipment	(1,636)	212
Gain on a bequest from a customer (Note 38)	3,337	—
Gain on fair value changes of an investment property (Note 15)	3,069	—
Donation	(593)	(1,039)
Net foreign exchange gain	4,909	5,624
Others	47	(28)
	9,133	4,769
Other income and gains, net	58,823	63,183

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 the society without any specific conditions.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings wholly repayable within five years:		
– bank loans	7,778	4,363
– loan from non-controlling interests	2,323	3,348
– loan from an independent third party	—	88
Less: Capitalized interest (note)	(1,845)	—
Total finance costs	8,256	7,799

Note: The capitalized borrowing costs were calculated by applying the borrowing rate of 4.35% per annum to expenditure on qualifying assets.

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Staff costs, including Directors' remuneration (Note 9)		
Salaries, wages, bonus and other benefits	231,763	201,276
Retirement benefits scheme contributions (Note 41)	16,685	13,768
Share-based payments expenses	36,130	29,370
Total staff costs	284,578	244,414
Auditors' remuneration	3,800	3,800
Depreciation of property and equipment	30,361	25,292
Cost of inventories recognized as an expense	157,135	138,738
Amortization of intangible assets and prepaid lease payment (included in administrative expenses)	1,107	848
Amortization of cemetery assets (included in cost of sales and services)	34,515	29,484
Amortization of other long-term assets	600	—
Operating lease expenses	12,682	10,488

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2016 RMB'000	2015 RMB'000
Directors' fees	8,885	8,880
Other emoluments		
Discretionary bonus	600	700
Contributions to retirement benefits scheme	152	152
Share based payments expenses	5,690	3,902
	15,327	13,634

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

For the year ended December 31, 2016

	Chief Executive Wang Jisheng RMB'000	Bai Xiaojiang RMB'000	Tan Leon Li-an RMB'000	Total RMB'000
A) Executive Directors				
Directors' fees	3,600	3,600	240	7,440
Discretionary bonus	300	300	—	600
Contributions to retirement benefits scheme	76	76	—	152
Share based payment expenses	2,067	2,067	247	4,381
Sub-total	6,043	6,043	487	12,573

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company.

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

For the year ended December 31, 2016 – *continued*

	Huang James Chih -Cheng RMB'000	Lin Hung Ming RMB'000	Lu Hesheng RMB'000	Ma Xiang RMB'000	Total RMB'000
B) Non-Executive Directors					
Directors' fees	240	8	240	237	725
Discretionary bonus	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—
Share based payment expenses	85	—	322	162	569
Sub-total	325	8	562	399	1,294

The non-executive directors' emoluments shown above were for their services as directors of the Company.

Lin Hung Ming resigned and Ma Xiang was appointed as non-executive director of the Company on January 12, 2016.

	Chen Qunlin RMB'000	Luo Zhuping RMB'000	Ho Man RMB'000	Wu Jianwei RMB'000	Total RMB'000
C) Independent Non-Executive Directors					
Directors' fees	—	240	240	240	720
Discretionary bonus	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—
Share based payment expenses	185	185	185	185	740
Sub-total	185	425	425	425	1,460

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

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

For the year ended December 31, 2015

	Chief Executive Wang Jisheng RMB'000	Bai Xiaojiang RMB'000	Tan Leon Li-an RMB'000	Total RMB'000
A) Executive Directors				
Directors' fees	3,600	3,600	240	7,440
Discretionary bonus	350	350	—	700
Contributions to retirement benefits scheme	76	76	—	152
Share based payment expenses	1,619	1,619	111	3,349
Sub-total	5,645	5,645	351	11,641

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company.

	Huang James Chih -Cheng RMB'000	Lin Hung Ming RMB'000	Lu Hesheng RMB'000	Total RMB'000
B) Non-Executive Directors				
Directors' fees	240	240	240	720
Discretionary bonus	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—
Share based payment expenses	111	111	111	333
Sub-total	351	351	351	1,053

The non-executive directors' emoluments shown above were for their services as directors of the Company.

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

For the year ended December 31, 2015 – *continued*

	Chen Qunlin RMB'000	Luo Zhuping RMB'000	Ho Man RMB'000	Wu Jianwei RMB'000	Total RMB'000
C) Independent Non-Executive Directors					
Directors' fees	—	240	240	240	720
Discretionary bonus	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—
Share based payment expenses	55	55	55	55	220
Sub-total	55	295	295	295	940

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

The five highest paid individuals of the Group included two directors (2015: two) for the year ended December 31, 2016. The remunerations of the remaining three (2015: three) individuals during the year are as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Employees		
Salaries, wages and other benefits	**4,900**	4,300
Discretionary bonus	**590**	660
Contributions to retirement benefits scheme	**151**	151
Share based payments expenses	**2,498**	2,834
	8,139	7,945

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

	Number of individuals	
	2016	2015
	RMB'000	RMB'000
HK$2,500,001-HK$3,000,000	**1**	1
HK$3,000,001-HK$3,500,000	**2**	1
HK$3,500,001-HK$4,000,000	**—**	1
HK$6,500,001-HK$7,000,000	**2**	2
	5	5

During the year, no emoluments were paid by the Group to any of the directors of the Company 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 of the Company waived any emoluments during the two years.

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income Tax ("PRC EIT")		
Current year	**131,709**	103,752
Over provision in prior years	**(21,408)**	(7,824)
Deferred tax (Note 22)	**(1,793)**	(1,491)
	108,508	94,437

The tax charge for the years ended December 31, 2016 and 2015 can be reconciled to the profit before taxation as follows:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**557,013**	459,606
Tax at the PRC EIT rate of 25%	**139,254**	114,901
Tax effect of expenses not deductible for tax purpose	**1,549**	1,312
Tax effect of income not taxable for tax purpose	**(6,958)**	(8,533)
Tax effect of different tax rates	**(2,833)**	(2,899)
Tax effect of tax losses not recognized	**2,872**	520
Tax effect of losses of offshore entities not recognized	**11,916**	10,240
Utilization of tax losses previously not recognized	**(6,110)**	(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)	**(9,774)**	(8,429)
Over provision in prior years	**(21,408)**	(7,824)
Income tax expense for the year	**108,508**	94,437

Note: During the year ended December 31, 2016, the relevant tax authorities have agreed that the share options granted by the Company to and exercised by the employees of certain of the Group's subsidiaries in the PRC can form a base for claiming tax deduction in respect of the EIT of those subsidiaries.

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

10. INCOME TAX EXPENSE – *continued*

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), Chongqing Anle Services Company Limited ("Chongqing Anle Services"), Chongqing Baitayuan Funeral and Burial Development Co., Ltd ("Chongqing Baitayuan") and Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), subsidiaries of the Group, which are located in specific province of Western China and engaged in specific encouraged industry, enjoy a preferential tax rate of 15% under EIT Law. The preferential tax rate for Chongqing Anle Services, Chongqing Baitayuan and Chongqing Anle Funeral Services 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, 2016 and 2015.

11. DIVIDENDS

	At December 31,	
	2016	2015
	RMB'000	RMB'000
Dividends for ordinary shareholder of the Company recognized as distribution during the year		
2016 Interim - HK2.57 cents (2015: 2015 interim dividend - HK2.39cents) per share	**46,323**	40,496
2015 Final - HK2.39 cents (2015: 2014 final dividend - HK1.95 cents) per share	**42,244**	32,423
	88,567	72,919

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2016 of HK2.60 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. 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:

	2016	2015
Earnings		
Earnings for the purpose of basic and diluted earnings per share (RMB'000)	**338,974**	284,444
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,094,169,808**	2,079,149,479
Effect of dilutive potential ordinary shares: Share options	**58,387,175**	51,931,665
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,152,556,983**	2,131,081,144

The computation of diluted earnings per share for 2016 and 2015 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.

13. PROPERTY AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At January 1, 2015	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	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
Additions	2,193	6,126	8,530	5,643	25,888	48,380
Acquired on acquisition of a subsidiary (Note 35)	220	—	73	78	—	371
Transfer	20,540	—	1,001	—	(21,541)	—
Disposals	(1,920)	—	(1,258)	(2,436)	—	(5,614)
At December 31, 2016	**270,386**	**23,052**	**56,042**	**42,645**	**114,782**	**506,907**
DEPRECIATION						
At January 1, 2015	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
Provided for the year	13,275	3,705	7,253	6,128	—	30,361
Eliminated on disposals	(192)	—	(1,174)	(1,973)	—	(3,339)
At December 31, 2016	**64,618**	**10,392**	**28,344**	**26,124**	—	**129,478**
CARRYING VALUES						
At December 31, 2015	197,818	10,239	25,431	17,391	110,435	361,314
At December 31, 2016	**205,768**	**12,660**	**27,698**	**16,521**	**114,782**	**377,429**

13. 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, 2016, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB94,329,000 (2015: RMB83,150,000) had not been obtained.

14. 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. The Group acquired medium-term land use rights situated in the PRC at a consideration of RMB1,954,000 in 2016.

During the year ended December 31, 2016, the prepaid lease payments are released to profit or loss as expenses amounting RMB363,000 (2015: RMB318,000).

15. INVESTMENT PROPERTY

	RMB'000
FAIR VALUE	
At January 1, 2016	—
Addition (Note 38)	3,440
Net increased in fair value recognized in profit of loss	3,069
At December 31, 2016	6,509

The Group's property held for capital appreciation purposes is accounted for as investment property and measured using the fair value model.

The fair value of the Group's investment property as at 31 December 2016 has been arrived at on the basis of a valuation carried out on that date by an independent qualified professional valuer not connected to the Group.

The valuations have been arrived at using direct comparison method.

16. INTANGIBLE ASSETS

	Computer software RMB'000	License for provision of funeral services RMB'000	Total RMB'000
COST			
At January 1, 2015	3,036	11,808	14,844
Additions	1,052	—	1,052
Acquired on acquisition of subsidiaries	157	—	157
Disposals	(12)	—	(12)
At December 31, 2015	4,233	11,808	16,041
Additions	391	—	391
At December 31, 2016	**4,624**	**11,808**	**16,432**
AMORTISATION			
At January 1, 2015	1,135	—	1,135
Provided for the year	530	—	530
Disposals	(12)	—	(12)
At December 31, 2015	1,653	—	1,653
Provided for the year	744	—	744
At December 31, 2016	**2,397**	**—**	**2,397**
CARRYING VALUES			
At December 31, 2015	2,580	11,808	14,388
At December 31, 2016	**2,227**	**11,808**	**14,035**

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, 2016 and 2015, the Group's management determined that there was no impairment of license.

16. INTANGIBLE ASSETS – *continued*

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, 2016, the Group performed impairment review for the license of the cash-generating units ("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 12.08% (2015: 13%) 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% (2015: 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. GOODWILL

The movement of goodwill as at December 31, 2016 and 2015 are as follows:

	2016 **RMB'000**	2015 RMB'000
COST		
At January 1	**267,661**	94,459
Arising on acquisition of a subsidiary (Note 35)	**22,973**	173,202
	290,634	267,661

17. GOODWILL – *continued*

The carrying amounts of goodwill as at December 31, 2016 and 2015 are as follows:

	2016	2015
	RMB'000	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	**47,245**	47,245
Wuyuan Wanshoushan Cemetery	**36,107**	36,107
Anyang Tianshouyuan Cemetery	**2,425**	2,425
Changzhou Qifengshan Cemetery	**87,425**	87,425
Zaozhuang Shanting Xingtai	**22,973**	—
	290,634	267,661

For the purposes of impairment testing, goodwill have been allocated to each of the individual CGUs, comprising ten subsidiaries (2015: nine) in the burial serveries segment. During the years ended December 31, 2016 and 2015, the management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

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

(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 12.08% (2015: 13%). 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 12.08% (2015: 13%). 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.

17. GOODWILL – *continued*

(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 12.08% (2015: 13%). 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 12.08% (2015: 13%). 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 12.08% (2015: 13%). Management estimates that the land will be fully developed and sold out in the following ten years.

(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 12.08% (2015: 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 12.08% (2015: 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 12.08% (2015: 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 12.08% (2015: 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.

17. GOODWILL – *continued*

(j) Zaozhuang Shanting Xingtai

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12.08%. 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.

18. CEMETERY ASSETS

	Land costs RMB'000	Landscape facilities RMB'000	Development cost RMB'000	Total RMB'000
COST				
At January 1, 2015	505,197	74,081	119,931	699,209
Additions	4,313	31,484	5,751	41,548
Acquired on acquisition of subsidiaries	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
Additions	46,253	12,701	8,912	67,866
Acquired on acquisition of a subsidiary (Note 35)	42,080	407	5,941	48,428
Transfer to inventories	(23,104)	(1,671)	(2,079)	(26,854)
At December 31, 2016	**781,760**	**191,751**	**262,470**	**1,235,981**
AMORTIZATION				
At January 1, 2015	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
Provided for the year	18,115	11,800	4,600	34,515
Eliminated on transfer	(446)	(605)	(224)	(1,275)
At December 31, 2016	**69,483**	**40,031**	**21,936**	**131,450**
CARRYING VALUES				
At December 31, 2015	664,717	151,478	232,136	1,048,331
At December 31, 2016	**712,277**	**151,720**	**240,534**	**1,104,531**

18. CEMETERY ASSETS – *continued*

	2016	2015
	RMB'000	RMB'000
The Group's land costs included in cemetery assets payment comprises:		
Land cost in the PRC for which development had not yet commenced:		
– Medium-term lease	**606,085**	554,973
– Long-term lease	**106,192**	109,744
	712,277	664,717

The land cost 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. INVESTMENT IN A JOINT VENTURE

	At December 31,	
	2016	2015
	RMB'000	RMB'000
Cost of investments in a joint venture	**30,000**	30,000
Share of post-acquisition profits, net of dividend received	**485**	—
	30,485	30,000

Pursuant to the joint venture arrangement the net profit generated from the joint venture will be shared between the Group and the other venture as to 51% and 49%, respectively. The joint venture is engaged in sale of burial plots.

19. INVESTMENT IN A JOINT VENTURE – *continued*

Information of a joint venture that is not material

	2016	2015
	RMB'000	RMB'000
The Group's share of profit and total comprehensive income for the year	**485**	—

20. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

	At December 31,	
	2016	2015
	RMB'000	RMB'000
Deposit for acquisition of a subsidiary		
– Zaozhuang Shanting Xingtai Funeral Service Co.,Ltd (note)	—	38,001

Note: The Group completed acquisition of Zaozhuang Shanting Xingtai on November 1, 2016. Therefore, deposit paid for acquisition of Zaozhuang Shanting Xingtai has been transfered out. Details are set out in Note 35.

21. 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.

22. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the year ended December 31, 2016 and 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, 2015	20,073	474	13,176	(67,364)	(33,641)
Acquisition of subsidiaries	—	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)
Acquisition of a subsidiary (Note 35)	—	—	—	(2,903)	(2,903)
Credit (charge) to profit or loss	(620)	538	(1,928)	3,803	1,793
At December 31, 2016	**22,809**	**4,704**	**—**	**(89,142)**	**(61,629)**

Note: Fair value adjustment mainly refers to revaluation of property and equipment, investment property 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,	
	2016 RMB'000	2015 RMB'000
Deferred tax assets	**27,513**	29,523
Deferred tax liabilities	**(89,142)**	(90,042)
	(61,629)	(60,519)

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 RMB73,528,000 (2015: RMB22,856,000) as at December 31, 2016. Deferred tax assets have been recognized in respect of approximately RMB18,816,000 (2015: RMB16,664,000) of such losses as at December 31, 2016. No deferred tax assets have been recognized in respect of the remaining approximately RMB54,712,000 (2015: RMB6,192,000) as at December 31, 2016 due to the unpredictability of future profit streams.

22. DEFERRED TAXATION – *continued*

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. The deductible taxable losses which are not recognized as deferred tax assets will expire in the following years as belows:

	2016	2015
	RMB'000	RMB'000
2016	**—**	212
2017	**1,687**	1,955
2018	**2,700**	2,700
2019	**40,076**	178
2020	**714**	1,147
2021	**9,535**	—
	54,712	6,192

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the 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 RMB1,005,441,000 (2015: RMB656,361,000) 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.

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 for a servive fee income in return. The prepayments are amortized over the agreed service period. During the year ended December 31, 2016, the amortization of other long-term assets charged to profit or loss as expenses amounting to RMB600,000 (2015: nil).

24. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Burial Plots	**260,301**	237,530
Tombstone	**83,294**	81,063
Others	**28,812**	20,929
	372,407	339,522

25. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**19,038**	9,622
Other receivables comprise:		
Prepayments and rental deposits on properties	**2,474**	1,853
Performance bond for a new project	**8,261**	—
Staff advances	**1,507**	1,420
Entrusted loans (note)	**14,400**	16,210
Management service income receivable	**1,200**	—
Others	**16,074**	5,741
	62,954	34,846

Note: As of December 31, 2016, the Group has advanced a loan amounting to RMB 14,400,000 (2015: RMB 14,400,000) to a cemetery for which the Group is providing management services. The entrusted loans are interest-free and repayable within one year. The balance as of December 31, 2015 also included an advance of RMB 1,810,000 to an entity in which the Group intended to acquire its entire equity interest in as set out in Note 20 for its working capital purpose. After the completion of the acquisition of such entity in 2016, the entity becomes a subsidiary of the Group.

The Group ordinarily demands it's customers for full cash settlement prior to or upon the delivery of burial services, funeral services and auxiliary services (other than sales of cremation machines) and therefore the Group does not maintain any material trade receivables. Before accepting any new customer for sales of cremation machines, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

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

	2016 RMB'000	2015 RMB'000
0 - 180 days	**10,266**	—
181 - 365 days	**—**	9,622
Over one year but less than two years	**8,772**	—
	19,038	9,622

25. TRADE AND OTHER RECEIVABLES – *continued*

Included in the Group's trade receivables are balances with aggregate carrying amount of RMB12,828,000 (2015: RMB9,622,000) which are past due at the end of reporting period. Trade receivable amounting to RMB8,772,000 as at December 31, 2016 (2015: RMB9,622,000) were derived from a transaction related to the tomb relocation funded by local government in Henan Province.

The carrying amount of the Group's trade and other receivables denominated in foreign currency are as follows:

	2016	2015
	RMB'000	RMB'000
HK$	**930**	242

Ageing of trade receivables which are past due but not impaired

	2016	2015
	RMB'000	RMB'000
Aged:		
0 - 180 days	**4,056**	—
181 - 365 days	**—**	9,622
Over one year but less than two years	**8,772**	—
	12,828	9,622

In determining the recoverability of the trade receivables, the Group reassesses any change in the credit quality of the trade receivables 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.

26. TIME DEPOSITS

	2016	2015
	RMB'000	RMB'000
RMB-denominated (note a)	**192,850**	—
US$-denominated (note b)	**101,000**	—
	293,850	—

Notes:

a. As of December 31, 2016, the Group had fixed-term deposits in banks in the PRC and Hong Kong SAR with maturity of four months to one year ("Time Deposits"). The Time Deposits carry fixed interests rate of from 1.82% to 3.54% per annum.

b. On December 20, 2016, the Group placed approximately US$14.55 million, equivalent to RMB101 million, into a one-year time deposit and at the same time entered into a foreign currency forward contract with a bank in Hong Kong SAR to convert the principal together with the interest thereon to RMB at an exchange rate of US$1 to RMB7.199773 upon maturity. Such time deposit carried a fixed interest rate of 1.8875% per annum. In the opinion of the directors of the Company, the fair value of such foreign currency forward contract is not material.

27. BANK BALANCES AND CASH

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

	2016	2015
Interest rate per annum		
– RMB	**0.35%-3.54%**	0.35%-4.25%
– HK$	**0.01%**	0.01%
– US$	**0.05%**	0.05%

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

	2016 RMB'000	2015 RMB'000
HK$	**39,290**	72,280
US$	**33,030**	30,781
	72,320	103,061

28. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**105,051**	99,405
Other payables comprise:		
Advances and deposits from customers	**27,861**	31,221
Payables for acquisition of property and equipment	**704**	1,380
Salary, welfare and bonus payables	**96,904**	85,273
Other accrued expenses	**12,703**	13,909
Consideration for acquisition of subsidiaries	**10,668**	11,140
Others	**33,751**	35,580
	287,642	277,908

28. TRADE AND OTHER PAYABLES – *continued*

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

	2016 RMB'000	2015 RMB'000
0 - 90 days	**30,384**	41,981
91 - 180 days	**19,941**	19,025
181 - 365 days	**27,754**	19,875
Over 365 days	**26,972**	18,524
	105,051	99,405

The average credit period on purchases of goods is 181 to 365 days.

The carrying amount of the Group's trade and other payables denominated in foreign currency other than RMB are as follows:

	2016 RMB'000	2015 RMB'000
HK$	**127**	325

29. BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank borrowings carry at variable interest rate		
– Secured by the Group's equity interest in subsidiaries	**94,020**	122,520
– Guaranteed by an independent third party	**—**	5,000
– Unsecured	**39,950**	39,950
	133,970	167,470
The carrying amounts of the above borrowings are repayable*:		
Within one year	**60,450**	63,450
More than one year, but not exceeding two years	**21,000**	20,500
More than two years but not more than five years	**52,520**	59,660
More than five years	**—**	23,860
	133,970	167,470
Less: amounts due within one year shown under current liabilities	**(60,450)**	(63,450)
Amounts shown under non-current liabilities	**73,520**	104,020

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

The Group's variable-rate bank borrowings carry interest at the People's Bank of China benchmark rate plus a premium. For the year ended December 31, 2016, the interest rates of the variable-rate bank borrowings ranged from 4.35% to 4.998% per annum (2015: 4.60% to 6.61%).

29. BORROWINGS – *continued*

The carrying amounts of the Group's equity interest in two subsidiaries that were secured against the Group's borrowings are set out below:

	2016 RMB'000	2015 RMB'000
Net book value of the Group's equity interest in subsidiaries	**117,366**	109,698

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,	
	2016 **RMB'000**	2015 RMB'000
Carrying amount analyzed as:		
Amounts shown under current liabilities	**18,200**	15,694
Amounts shown under non-current liabilities	**223,070**	198,450
	241,270	214,144

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, 2016, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB18,682,000 (2015: RMB16,002,000).

31. LOAN FROM NON-CONTROLLING INTERESTS

The balance represents the loan from Shandong World Trade Centre (山東世界貿易中心) carried fixed interest rates at 5.06% (December 31, 2015: 6%) per annum as at December 31, 2016. During the year ended December 31, 2016, the Group partially repaid the loan amounting to RMB 3,813,000 in its own discretion.

As at December 31, 2016 and December 31, 2015, Shandong World Trade Center has confirmed that it shall not demand repayment of the amount due to it within the twelve months from each of the period end. Accordingly, the amount is shown under non-current as at December 31, 2016 and December 31, 2015.

32. SHARE CAPITAL

	Number of shares	Amount
		US$
Ordinary shares of US$0.01 each		
Authorized:		
At December 31, 2016, December 31, 2015 and January 1, 2015	20,000,000,000	200,000,000

	Number of shares	Amount	Shown in the Financial Information as
		US$	RMB'000
Issued and fully paid:			
At January 1, 2015	2,075,000,000	20,750,000	125,689
Exercise of share options	14,293,446	142,934	912
At December 31, 2015	2,089,293,446	20,892,934	126,601
Exercise of share options (Note 34)	13,064,281	130,643	869
At December 31, 2016	2,102,357,727	21,023,577	127,470

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.

Special reserve

The special reserve consisted of an amount of RMB5,000,000 representing deemed contribution from the equity holders pursuant to a Group's reorganization and an amount of RMB79,667,000 representing deemed contribution from the founding shareholders as a result of a waiver of liabilities by such founding shareholders prior to the Company's listing.

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 of the Company 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 of the Company 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.

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, 2016:

			Number of options				
	Date of grant	Exercise price per Share (HKD)	Options balance outstanding as at January 1, 2016	Issued during the year ended December 31, 2016	Exercised during the year ended December 31, 2016	Forfeited during the year ended December 31, 2016	Options outstanding as at December 31, 2016
Directors							
Bai Xiaojiang	August 8, 2013	1	3,453,452	—	—	—	3,453,452
Wang Jisheng	August 8, 2013	1	3,453,452	—	—	—	3,453,452
			6,906,904	—	—	—	6,906,904
Other employees	August 8, 2013	1	36,412,819	—	12,134,281	—	24,278,538
Total			43,319,723	—	12,134,281	—	31,185,442
Exercisable at December 31			14,513,138				31,185,442
Weighted average exercise price (HK$)			1	—	1	—	1

The estimated fair value of share options granted was approximately RMB37,849,413, which was calculated using the Binomial model. The Group recognized the total expense of approximately RMB3,664,000 (2015: RMB11,825,000) for the year ended December 31, 2016 in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

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 of the Company. 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 of the Company 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 of the Company 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 share underlying the options granted.

(3) All Share Option A granted to directors of the Company 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.

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

The fair values of the Options A at grant date are HK$ 1.27 per share and HK$ 0.78 per share respectively representing RMB37,849,000 in total, which are determined using a binomial option pricing model. The inputs into the model were as follows:

	Employee	Directors
Grant date 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 rates were based on market yield rate of Hong Kong Government Bond with maturity with 4 years and 10 years as of the date of grant, respectively.

Expected volatility was determined based on the historical share price volatility. 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.

Granted on March 19, 2015

On March 19, 2015, the Company granted 50,000,000 share options (the "Share Option B") to the directors of the Company 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.

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

Granted on March 19, 2015 – *continued*

The fair value of the Option B at grant date is HK$0.47 per share, representing RMB18,020,000 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 with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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.

Granted on March 24, 2016

On March 24, 2016, the Company granted 48,000,000 share options (the "Share Option C") to the directors of the Company and employees of the Group under the following terms:

(1) All Share Option C granted are at an exercise price of HK$ 5.824 per share.

(2) All Share Option C granted can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From March 24, 2018 to March 23, 2020	50% of the total number of shares underlying the options granted.
From March 24, 2019 to March 23, 2020	50% of the total number of shares underlying the options granted.

34. SHARE BASED COMPENSATION– *continued*

Share Option Scheme – *continued*

Granted on March 24, 2016 – *continued*

The fair value of the Option C at grant date is HK$1.21 per share, representing RMB48,592,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK$5.52
Exercise price	HK$5.824
Expected volatility	34.34%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	0.99%
Forfeiture rate	4.30%

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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.

Granted on May 16, 2016

On May 16, 2016, the Company granted 2,000,000 share options (the "Share Option D") to the directors of the Company under the following terms:

(1) All Share Option D granted are at an exercise price of HK$ 5.466 per share.

(2) All Share Option D granted can only be exercised in the following manners:

Exercise Period	Maximum percentage of share underlying the option exercisable
From April 27, 2018 to April 26, 2020	50% of the total number of shares underlying the options granted.
From April 27, 2019 to April 26, 2020	50% of the total number of shares underlying the options granted.

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

Granted on May 16, 2016 – *continued*

The fair value of the Option D at grant date is HK$1.32 per share, representing RMB2,207,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK$5.460
Exercise price	HK$5.466
Expected volatility	33.6%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	0.86%
Forfeiture rate	—

The risk-free interest rate was based on market yield rate of Hong Kong Government Bond with maturity with 4 years as of the date of grant.

Expected volatility was determined based on the historical share price volatility. 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.

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

Set out below are details of movements of the outstanding options in relation to Share Option A to D granted under the Share Option Scheme during the year ended December 31, 2016:

				Number of options				
	Batch	Date of grant	Exercise price per Share (HK$)	Options balance outstanding as at January 1, 2016	Issued during the year ended December 31, 2016	Exercised during the year ended December 31, 2016	Forfeited during the year ended December 31, 2016	Options balance outstanding as at December 31, 2016
Directors								
Bai Xiaojiang	Share Option A	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	Share Option B	March 19, 2015	3.126	3,000,000	—	—	—	3,000,000
	Share Option C	March 24, 2016	5.824	—	2,000,000	—	—	2,000,000
	Share Option D	May 16, 2016	5.466	—	1,000,000	—	—	1,000,000
Wang Jisheng	Share Option A	August 5, 2014	4.14	2,000,000	—	—	—	2,000,000
	Share Option B	March 19, 2015	3.126	3,000,000	—	—	—	3,000,000
	Share Option C	March 24, 2016	5.824	—	2,000,000	—	—	2,000,000
	Share Option D	May 16, 2016	5.466	—	1,000,000	—	—	1,000,000
Tan Leon Li-an	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
	Share Option C	March 24, 2016	5.824	—	500,000	—	—	500,000
Ma Xiang	Share Option C	March 24, 2016	5.824	—	500,000	—	—	500,000
Lin Hung Ming	Share Option A	August 5, 2014	4.14	400,000	—	—	(400,000)	—
Lu Hesheng	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
	Share Option B	March 19, 2015	3.126	500,000	—	—	—	500,000
	Share Option C	March 24, 2016	5.824	—	500,000	—	—	500,000
Huang James Chih-Cheng	Share Option A	August 5, 2014	4.14	400,000	—	—	—	400,000
Chen Qunlin	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	—	300,000	—	—	300,000
Luo Zhuping	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	—	300,000	—	—	300,000
Ho Man	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	—	300,000	—	—	300,000
Wu Jianwei	Share Option A	August 5, 2014	4.14	200,000	—	—	—	200,000
	Share Option B	March 19, 2015	3.126	300,000	—	—	—	300,000
	Share Option C	March 24, 2016	5.824	—	300,000	—	—	300,000
				14,100,000	8,700,000	—	(400,000)	22,400,000
Other employees	Share Option A	August 5, 2014	4.14	35,200,000	—	930,000	—	34,270,000
	Share Option B	March 19, 2015	3.126	42,300,000	—	—	—	42,300,000
	Share Option C	March 24, 2016	5.824	—	41,300,000	—	—	41,300,000
Total				91,600,000	50,000,000	930,000	(400,000)	140,270,000
Exercisable at December 31				—				19,670,000
Weighted average exercise price (HK$)				3.59	5.81	4.14	4.14	4.37

34. SHARE BASED COMPENSATION – *continued*

Share Option Scheme – *continued*

The Group recognized the total expense of approximately RMB32,466,000 (2015: RMB17,545,000) for the year in relation to Share Option A to D granted by the Company under Share Option Scheme.

35. ACQUISITION OF SUBSIDIARIES

On December 2, 2014, Shanghai Fu Shou Yuan, a wholly-owned subsidiary of the Group, entered into an agreement with the equity holders of Zaozhuang Shanting Xingtai Funeral Services Co., Ltd. ("Zaozhuang Shanting Xingtai"), pursuant to which Shanghai Fu Shou Yuan agree to acquire an aggregate of 100% equity interest in Zaozhuang Shanting Xingtai for a cash consideration of RMB59,800,000. Zaozhuang Shanting Xingtai is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed on November 1, 2016.

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

	RMB'000
Property and equipment	371
Cemetery assets	48,428
Trade and other receivables	7
Bank balances and cash	2
Trade and other payables	(3,168)
Deferred tax	(2,903)
Other long-term liabilities	(5,910)
Net assets acquired	36,827
Goodwill	22,973
Consideration transferred	59,800
Satisfied by:	
Deposit paid in prior years	38,001
Cash paid in 2016	12,700
Consideration payable	9,099
Consideration transferred	59,800
Net cash outflow arising on acquisition	
Bank balances and cash acquired	2
Cash paid in 2016	(12,700)
	(12,698)

35. ACQUISITION OF SUBSIDIARIES – *continued*

Goodwill arose in the acquisition of Zaozhuang Shanting Xingtai because the consideration for the combination effectively included amounts in relation to the future business growth of Zaozhuang Shanting Xingtai. 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 RMB600,000 which is attributable to Zaozhuang Shanting Xingtai.

Had the acquisition been completed on January 1, 2016, the Group's revenue for the year would have been approximately RMB1,267,658,000 and profit and total comprehensive income for the year would have been approximately 446,336,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2016, nor is it intended to be a projection of future results.

36. 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, 2016.

The capital structure of the Group consists of net debt, which mainly includes borrowings, loan from non-controlling interests, restricted deposits, time deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an on-going basis. As part of this review, the directors of the Company 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 debts.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**1,609,378**	1,332,645
Financial liabilities		
Amortized cost	**318,855**	364,947

b. Financial risk management objectives and policies

The Group's major financial instruments include restricted deposits, time 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.

37. FINANCIAL INSTRUMENTS – *continued*

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

Market risk

Currency risk

The primary economic environment in which the Company and its principal subsidiaries operate is the PRC and their functional currency is RMB. However, certain bank balances, other receivables and other payables are denominated in foreign currencies, which expose the Group to foreign currency risk. The 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, 2016 and 2015 are as follows:

	2016	2015
	RMB'000	RMB'000
Assets		
United States Dollars ("US$")	**134,030**	30,781
Hong Kong Dollars ("HK$")	**40,220**	72,522
Liabilities		
HK$	**127**	325

The Group entered into a foreign exchange forward contract to mitigate its foreign currency exposure of the US$ denominated time deposit as at December 31, 2016. Details are set out in Note 26.

37. 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 negative number below indicates a decrease in post-tax profit where RMB strengthens 5% against the relevant foreign currencies, whereas a positive number indicates an increase 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.

	2016	2015
	RMB'000	RMB'000
If RMB strengthens against US$	**(1,239)**	(1,154)
If RMB strengthens against HK$	**(1,504)**	(2,707)

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 interests.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, restricted deposits and variable-rate 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 10-basis point increase or decrease in deposit interest rates and a 50-basis point increase or decrease in lending interest rates represent management's assessment of the reasonably possible change in interest rates.

If the deposit interest rate had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2016 would have been increased/decreased by approximately RMB953,000 (2015: RMB979,000).

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, 2016 would have been decreased/increased by approximately RMB502,000 (2015: RMB628,000).

37. FINANCIAL INSTRUMENTS – *continued*

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

Credit risk

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

The Group's credit risk primarily relates to the Group's trade and other receivables, bank balances and cash, time deposits and restricted deposits.

The credit risk in relation to the Group's bank balances, time deposits 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 on trade receivables. At 31 December 2016, the Group's three largest customers accounted for approximately 94.5% of the total trade receivables.

The management reviews the recoverable amount of each individual balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, if any. In this regard, the management considers that credit risk in trade receivables is managable.

At December 31, 2016, the Group recorded entrusted loans amounting to RMB14,400,000 to a cemetery for which the Group is providing management services and future acquisition (2015: RMB16,210,000). The entrusted loans should be paid back within 12 months. The management has assessed the financial position of the counterparty and believed that the loans are fully recoverable.

Liquidity risk

In the management of liquidity risk, the 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.

37. FINANCIAL INSTRUMENTS – *continued*

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

Liquidity risk – continued

Liquidity and interest risk tables

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

The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from the applicable interest rates as at December 31, 2016 and 2015.

	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, 2016						
Trade and other payables	—	150,525	—	—	150,525	150,525
Loan from non-controlling interest						
– fixed rate	5.06	—	36,098	—	36,098	34,360
Borrowings						
– variable rate	4.81	66,403	86,763	—	153,166	133,970
		216,928	122,861	—	339,789	318,855

	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						
– fixed rate	6.00	—	40,463	—	40,463	38,173
Borrowings						
– variable rate	5.05	71,033	93,579	25,054	189,666	167,470
		230,337	134,042	25,054	389,433	364,947

37. 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 of the Company consider that the carrying amounts of financial assets and financial liabilities included at amortized cost in the consolidated financial statements approximate their fair value.

38. A MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2016, the Group was bequeathed a property located in the PRC by a customer upon her passing. The Group recorded the property as investment property amounting to approximately RMB3,440,000 at its fair value on the date of title transfer and recognized a gain of approximately RMB3,337,000 representing the fair value of the property; less the fair value of the maintenance services to be provided by the Group and relevant deemed tax.

39. 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:

	2016	2015
	RMB'000	RMB'000
Within one year	**6,670**	5,925
In the second to fifth years inclusive	**9,420**	6,017
After five years	**7,741**	64
	23,831	12,006

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

40. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of the acquisition of property and equipment:		
– contracted for but not provided in the consolidated financial statements	33,173	41,486
– authorized but not yet contracted for	330,000	52,843
	363,173	94,329
Capital expenditure in respect of the acquisition of subsidiaries:		
– contracted for but not provided in the consolidated financial statements	57,600	21,799

41. RETIREMENT BENEFITS SCHEME

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

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

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB16,685,000 for the year ended December 31, 2016 (2015: RMB13,339,000), represent contributions paid and/or payable to the scheme by the Group for the year ended December 31, 2016.

42. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel

The remuneration of directors of the Company, who are also key management, is disclosed in Note 9.

43. DETAILS OF SUBSIDIARIES

The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2016 and 2015 are as follows:

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishmen	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 %	2015 %	Principal activities
Directly held:						
FSY Hong Kong+ 福壽園集團（香港）有限公司	Hong Kong	October 10, 2011	2 share of HK$1.00 each	**100**	100	Investment holding
Indirectly held:						
Chongqing FSY 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 Wenhua Lingyuan Company Limited^ "Hefei Dashushan Co" (note (a)) 合肥大蜀山文化陵園有限公司	PRC	February 22, 2002	RMB10,000,000	**60**	60	Provision of burial services

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries#	Place of incorporation/ establishment	Date of incorporation/ establishmen	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31,		Principal activities
				2016	2015	
				%	%	
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
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^ 福浉企業管理諮詢（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 Humanities Memorial Co., Ltd^ (Nanchang Hongfu) (note (c)) 南昌洪福人文紀念有限責任公司	PRC	November 17, 2009	RMB140,000,000	**50.89**	50.89	Provision of burial services

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishmen	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 %	2015 %	Principal activities
Chongqing Fuyuan Corporate Management Consultancy Company Limited+ 重慶福元企業管理諮詢有限公司	PRC	January 20, 2012	USD1,000,000	**100**	100	Investment holding
Xiamen Huaixiang Condolence Services Company Limited^ 廈門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 Envirnmental Equipmen 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 and sales of cremation devices
Shandong Fu Shou Yuan Developmen Company Limited^ "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	**70**	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	RMB1,600,000	**51**	51	Sales of agricultural products

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries#	Place of incorporation/ establishment	Date of incorporation/ establishmen	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31,		Principal activities
				2016	2015	
				%	%	
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 Funeral and Burial Development Co., Ltd^ 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 Funerial 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
Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd^ (Guanlingshan Cultural Cemetery) 遼寧觀陵山藝術園林公墓有限公司	PRC	December 11, 2012	RMB118,600,000	**70**	70	Provision of burial service
Wuyuan Wanshoushan Lingyuan Co., Ltd.^ (Wuyuan Wanshoushan Cemetery) 婺源萬壽山陵園有限公司	PRC	May 7, 2013	RMB3,500,000	**75**	75	Provision of burial service
Anyang Wulong Civil Service Co., Ltd.^ 安陽縣五龍民生服務有限公司	PRC	October 25, 2010	RMB54,500,000	**80**	80	Provision of burial service

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiaries #	Place of incorporation/ establishment	Date of incorporation/ establishmen	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company At December 31, 2016 %	2015 %	Principal activities
Changzhou Qifengshan International Cemetery Co., Ltd.^ (Changzhou Qifengshan Cemetery) 常州棲鳳山國際人文陵園有限公司	PRC	March 22, 2007	RMB55,000,000	**80**	80	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**	100	Investment holding
Taian Fu Shou Yuan Funeral Arrangement Services Co., Ltd *^ 泰安福壽園禮儀服务有限公司	PRC	March 9, 2016	RMB5,000,000	**100**	N/A	Provision of funeral service
Chongqing Fu Shou Yuan Xiyuan Industrial Co., Ltd*^ (Chongqing Xiyuan) (Note (f)) 重慶福壽園西苑實業有限公司	PRC	March 8, 2016	RMB80,000,000	**51**	N/A	Provision of burial service and funeral service
Wuyuan County Fu Shou Funeral Co., Ltd*^ 婺源縣福壽園殯儀有限責任公司	PRC	December 17, 2015	RMB100,000	**100**	100	Provision of funeral service
Zaozhuang Shanting Xingtai Funeral Service Co., Ltd° ^ 棗莊市山亭興泰殯儀服务有限公司	PRC	October 25, 2004	RMB1,500,000	**100**	N/A	Provision of burial service
Xuancheng Mashan Funeral Parlour Co., Ltd*^ 宣城市馬山殯儀有限公司	PRC	October 20, 2016	RMB70,000,000	**100**	N/A	Provision of funeral service

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, 2016.
^ 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.
° The entity was acquired during the year ended December 31, 2016.

43. DETAILS OF SUBSIDIARIES – *continued*

Notes:

(a) The Group has four seats in the board of directors of Hefei Dashushan Co, while a valid resolution requires more than 66.67% of the vote from all board of directors. 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 (a), 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) By virtue of the shareholders' agreement, or terms set out in the articles of association, the Group has control over Chongqing Xiyuan in which the Group has the practical ability to direct the relevant activities of Chongqing Xiyuan unilaterally.

44. 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	
		2016	2015	**2016**	2015	**2016**	2015
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Hefei Dashushan Co	PRC	**40**	40	**24,238**	17,876	**31,167**	24,929
Nanchang Hongfu	PRC	**49.11**	49.11	**3,014**	450	**71,064**	68,050
Shandong Fu Shou Yuan	PRC	**50**	50	**3,044**	2,360	**26,469**	23,425
Haigang Fu Shou Yuan	PRC	**60**	60	**63,245**	46,169	**107,820**	92,575
Chongqing Baitayuan	PRC	**40**	40	**4,907**	4,738	**60,650**	55,743
Guanlingshan Cultural Cemetery	PRC	**30**	30	**7,028**	7,071	**112,051**	106,523
Wuyuan Wanshoushan Cemetery	PRC	**25**	25	**(702)**	(228)	**3,481**	4,183
Changzhou Qifengshan Cemetery	PRC	**20**	20	**2,213**	(24)	**26,358**	24,145
Chongqing Xiyuan	PRC	**49**	—	**(228)**	—	**38,972**	—
Individually immaterial subsidiaries with non-controlling interests				**2,772**	2,313	**14,828**	14,267
Total				**109,531**	80,725	**492,860**	413,840

44. 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 have material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Hefei Dashushan Co

	2016 RMB'000	2015 RMB'000
Current assets	**140,380**	110,368
Non-current assets	**12,219**	12,268
Current liabilities	**53,982**	43,209
Non-current liabilities	**20,700**	17,104
Equity attributable to owners of the Company	**46,750**	37,394
Non-controlling interests	**31,167**	24,929

	2016 RMB'000	2015 RMB'000
Revenue	**124,591**	102,891
Expenses	**(63,997)**	(58,200)
Profit and total comprehensive income attributable to the owner of the Company	**36,356**	26,815
Profit and total comprehensive income attributable to non-controlling interests	**24,238**	17,876
Profit and total comprehensive income for the year	**60,594**	44,691
Dividends paid to non-controlling interests	**18,000**	15,200
Net cash inflow from operating activities	**64,216**	58,182
Net cash outflow from investing activities	**(917)**	(1,166)
Net cash outflow from financing activities	**(45,000)**	(38,000)
Net cash inflow	**18,299**	19,016

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

Nanchang Hongfu

	2016	2015
	RMB'000	RMB'000
Current assets	**123,590**	105,016
Non-current assets	**115,054**	126,924
Current liabilities	**80,313**	79,570
Non-current liabilities	**13,628**	13,805
Equity attributable to owners of the Company	**73,639**	70,515
Non-controlling interests	**71,064**	68,050

	2016	2015
	RMB'000	RMB'000
Revenue	**23,929**	18,986
Expenses	**(17,791)**	(18,073)
Profit and total comprehensive income attributable to the owner of the Company	**3,124**	463
Profit and total comprehensive income attributable to non-controlling interest	**3,014**	450
Profit and total comprehensive income for the year	**6,138**	913
Capital injection from non-controlling interests	**—**	24,554
Net cash inflow (outflow) from operating activities	**24,244**	(30,096)
Net cash outflow from investing activities	**(9,352)**	(8,687)
Net cash inflow from financing activities	**—**	50,000
Net cash inflow	**14,892**	11,217

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

Shandong Fu Shou Yuan

	2016 RMB'000	2015 RMB'000
Current assets	43,980	51,259
Non-current assets	127,195	131,234
Current liabilities	70,562	84,749
Non-current liabilities	47,675	50,894
Equity attributable to owners of the Company	26,469	23,425
Non-controlling interests	26,469	23,425

	2016 RMB'000	2015 RMB'000
Revenue	43,015	44,825
Expenses	(36,927)	(40,105)
Profit and total comprehensive income attributable to the owner of the Company	3,044	2,360
Profit and total comprehensive income attributable to non-controlling interest	3,044	2,360
Profit and total comprehensive income for the year	6,088	4,720
Net cash inflow from operating activities	5,659	10,613
Net cash outflow from investing activities	(3,871)	(551)
Net cash outflow from financing activities	(13,513)	(4,700)
Net cash (outflow) inflow	(11,725)	5,362

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

Haigang Fu Shou Yuan

	2016 RMB'000	2015 RMB'000
Current assets	**173,246**	146,460
Non-current assets	**65,830**	71,456
Current liabilities	**43,024**	51,222
Non-current liabilities	**16,352**	12,402
Equity attributable to owners of the Company	**71,880**	61,717
Non-controlling interests	**107,820**	92,575

	2016 RMB'000	2015 RMB'000
Revenue	**191,258**	151,270
Expenses	**(85,850)**	(74,322)
Profit and total comprehensive income attributable to the owner of the Company	**42,163**	30,779
Profit and total comprehensive income attributable to non-controlling interest	**63,245**	46,169
Profit and total comprehensive income for the year	**105,408**	76,948
Dividends paid to non-controlling interests	**48,000**	42,000
Net cash inflow from operating activities	**109,604**	89,377
Net cash inflow (outflow) from investing activities	**1,969**	(5,720)
Net cash outflow from financing activities	**(80,000)**	(70,000)
Net cash inflow	**31,573**	13,657

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

Chongqing Baitayuan

	2016 RMB'000	2015 RMB'000
Current assets	**29,935**	26,002
Non-current assets	**174,923**	173,070
Current liabilities	**18,937**	25,876
Non-current liabilities	**34,295**	33,839
Equity attributable to owners of the Company	**90,976**	83,614
Non-controlling interests	**60,650**	55,743

	2016 RMB'000	2015 RMB'000
Revenue	**33,819**	26,971
Expenses	**(21,550)**	(15,126)
Profit and total comprehensive income attributable to the owner of the Company	**7,362**	7,107
Profit and total comprehensive income attributable to non-controlling interest	**4,907**	4,738
Profit and total comprehensive income for the year	**12,269**	11,845
Net cash inflow from operating activities	**12,488**	7,379
Net cash outflow from investing activities	**(6,928)**	(9,245)
Net cash inflow (outflow)	**5,560**	(1,866)

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

Guanlingshan Cultural Cemetery

	2016	2015
	RMB'000	RMB'000
Current assets	**96,974**	110,647
Non-current assets	**342,615**	364,849
Current liabilities	**51,067**	107,325
Non-current liabilities	**15,018**	13,095
Equity attributable to owners of the Company	**261,453**	248,553
Non-controlling interests	**112,051**	106,523

	2016	2015
	RMB'000	RMB'000
Revenue	**141,442**	128,422
Expenses	**(118,014)**	(104,851)
Profit and total comprehensive income attributable to the owner of the Company	**16,400**	16,500
Profit and total comprehensive income attributable to non-controlling interest	**7,028**	7,071
Profit and total comprehensive income for the year	**23,428**	23,571
Dividends paid to non-controlling interests	**1,500**	—
Net cash inflow from operating activities	**70,606**	47,885
Net cash outflow from investing activities	**(20,776)**	(80,242)
Net cash outflow from financing activities	**(76,480)**	(185,844)
Net cash outflow	**(26,650)**	(218,201)

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

Wuyuan Wanshoushan Cemetery

	2016 RMB'000	2015 RMB'000
Current assets	**13,325**	3,488
Non-current assets	**41,142**	42,103
Current liabilities	**30,629**	18,931
Non-current liabilities	**9,915**	9,928
Equity attributable to owners of the Company	**10,442**	12,549
Non-controlling interests	**3,481**	4,183

	2016 RMB'000	2015 RMB'000
Revenue	**7,482**	8,351
Expenses	**(10,291)**	(9,263)
Loss and total comprehensive expense attributable to the owner of the Company	**(2,107)**	(684)
Loss and total comprehensive expense attributable to non-controlling interest	**(702)**	(228)
Loss and total comprehensive expense for the year	**(2,809)**	(912)
Net cash (outflow) inflow from operating activities	**(11,969)**	3,856
Net cash outflow from investing activities	**(278)**	(4,182)
Net cash inflow from financing activities	**11,573**	1,000
Net cash (outflow) inflow	**(674)**	674

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

Changzhou Qifengshan Cemetery

	2016 RMB'000	2015 RMB'000
Current assets	**33,117**	19,895
Non-current assets	**129,977**	124,094
Current liabilities	**13,964**	6,243
Non-current liabilities	**17,340**	17,020
Equity attributable to owners of the Company	**105,432**	96,581
Non-controlling interests	**26,358**	24,145

	2016 RMB'000	2015 RMB'000
Revenue	**30,029**	867
Expenses	**(18,965)**	(987)
Profit (loss) and total comprehensive income(expense) attributable to the owner of the Company	**8,851**	(96)
Profit (loss) and total comprehensive income (expense) attributable to non-controlling interest	**2,213**	(24)
Profit (loss) and total comprehensive income (expense) for the year	**11,064**	(120)
Net cash inflow from operating activities	**16,312**	812
Net cash outflow from investing activities	**(2,113)**	(1,901)
Net cash inflow (outflow)	**14,199**	(1,089)

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

Chongqing Xiyuan

	2016 RMB'000
Current assets	35,664
Non-current assets	44,393
Current liabilities	523
Equity attributable to owners of the Company	40,562
Non-controlling interests	38,972

	For the period ended December 31, 2016 since incorporation RMB'000
Revenue	907
Expenses	(1,373)
Loss and total comprehensive expense attributable to the owner of the Company	(238)
Loss and total comprehensive expense attributable to non-controlling interest	(228)
Loss and total comprehensive expense	(466)
Capital injection from non-controlling interests	39,200
Net cash outflow from operating activities	(40,645)
Net cash outflow from investing activities	(4,276)
Net cash inflow from financial activities	80,000
Net cash inflow	35,079

45. INFORMATION OF FINANCIAL POSITIONS OF THE COMPANY

The statement of financial position of the Company as at December 31, 2016 and 2015 are as follows:

	2016	2015
	RMB'000	RMB'000
Trade and other receivables	**676**	205
Interest in subsidiaries and amount due from subsidiaries	**1,494,069**	1,486,402
Bank balances and cash	**12,835**	10,851
Total assets	**1,507,580**	1,497,458
Trade and other payables	**123**	272
Amount due to a subsidiary	**236,607**	146,418
Total liabilities	**236,730**	146,690
	1,270,850	1,350,768
Capital and reserves		
Share capital	**127,470**	126,601
Reserves (note)	**1,143,380**	1,224,167
	1,270,850	1,350,768

Note:

	Share Premium*	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At January 1, 2015	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
Exercise of stock options	21,428	—	(8,583)	—	12,845
Share based compensation	—	—	36,130	—	36,130
Loss and total comprehensive expense for the year	—	—	—	(41,195)	(41,195)
Dividends recognized as distributions	(88,567)	—	—	—	(88,567)
At December 31, 2016	**1,123,394**	**79,667**	**74,233**	**(133,914)**	**1,143,380**

* 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.

46. CONTINGENT LIABILITIES

Before the completion of the acquisition of Wuyuan Wanshoushan Cemetery in 2015, 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 loans and guarantees to the Group before the completion of the acquisition of Wuyuan Wanshoushan Cemetery.

As of the date of these financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery (together the "Creditors") brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the "Proceedings") of which 5 were either settled, subsequently withdrawn or concluded by the Province People's Courts resulting a RMB1.7 million net settlement paid/payable by the Group. The total claims on the remaining 7 Proceedings (the "Remaining Proceedings"), where appropriate, including the interest accrued up to the date of these financial statements, amounting to RMB42 million and the status of which are disclosed as follows:

- 2 claim over RMB29 million awarded in favor of the plaintiffs in the second-instance of the Province People's Courts;
- 1 claim over RMB9 million awarded in favor of the plaintiffs in the first-instance of the Province People's Courts, and;
- 4 claim over RMB4 million involved in the first-instance of legal proceedings but currently pending at the Province People's Courts.

Based on the expert advices of two independent PRC legal counsels (the "Legal Opinions"), the directors of the Company are of the view that the claims on the Remaining Proceedings are not well grounded and therefore have directed Wuyuan Wanshoushan Cemetery to take all necessary steps vigorously defending against the Remaining Proceedings, including filing appeals against the related judgements of the Province People's Court, including the 2 claims awarded in favor of the plaintiffs in the second-instance of the Province People's Courts and the claim awarded of the plaintiffs in the first-instance of the Province People's Courts. In addition, the Group has also initiated separate legal steps against Mr. Liang to recover any losses it suffers as a result of the Proceedings.

As of the date of these financial statements, after taking into account of the Legal Opinions and the current status of the Remaining Proceedings, the directors of the Company are of the view that the Remaining Proceedings will in the end result in a material adverse impact on the financial position and business operation of the Group is not probable and conclude that no provision shall necessarily be made. However, given the nature of the Remaining Proceedings, it would be impossible to predict the outcome of the appeal proceedings with a sufficient degree of certainty.

47. SUBSEQUENT EVENTS

On September 28, 2016, the Group entered into an agreement to acquire 80% equity interest in Luoyang Xianhe Memorial Cemetery Co., Ltd (洛陽仙鶴紀念陵園有限公司) with a total consideration of RMB 57.6 million, which has been mainly providing burial services, funeral services and holds land use right for a parcel of land. The acquisition was completed in January 2017.

	For the year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Results					
Revenue	479,977	611,811	795,092	1,107,960	**1,267,655**
Costs of sales	(93,659)	(120,152)	(159,259)	(248,161)	**(265,303)**
Gross profit	386,318	491,659	635,833	859,799	**1,002,352**
Other gains and losses	9,789	29,432	58,128	63,183	**58,823**
Distribution and selling expenses	(95,214)	(105,982)	(149,394)	(205,442)	**(217,517)**
Administrative expenses	(104,062)	(122,951)	(199,680)	(250,135)	**(278,874)**
Share of profits of a joint venture	—	—	—	—	**485**
Finance costs	(10,837)	(5,281)	(3,679)	(7,799)	**(8,256)**
Other expenses	—	(26,501)	—	—	**—**
Share of profits of associates	8,638	—	—	—	**—**
Profit before tax	194,632	260,376	341,208	459,606	**557,013**
Income tax expense	(56,431)	(70,296)	(56,149)	(94,437)	**(108,508)**
Profit for the year	138,201	190,080	285,059	365,169	**448,505**
Attributable to:					
Owners of the Company	124,270	167,255	230,372	284,444	**338,974**
Non-controlling interests	13,931	22,825	54,687	80,725	**109,531**
	138,201	190,080	285,059	365,169	**448,505**
	RMB cents	RMB cents	RMB cents	RMB cents	**RMB cents**
Earnings per share					
Basic	8.3	11.0	11.1	13.7	**16.2**
Diluted	8.3	10.9	10.9	13.3	**15.7**

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Assets and liabilities					
Total Assets	1,035,222	2,468,151	2,935,120	3,563,565	**3,936,218**
Total Liabilities	(654,220)	(723,214)	(722,808)	(913,796)	**(907,178)**
	381,002	1,744,937	2,212,312	2,649,769	**3,029,040**
Equity attributable to owners of the Company	243,087	1,580,118	1,983,273	2,235,929	**2,536,180**
Non-controlling interests	137,915	164,819	229,039	413,840	**492,860**
	381,002	1,744,937	2,212,312	2,649,769	**3,029,040**

DEFINITIONS AND GLOSSARY

"AGM"	the annual general meeting of the Company to be held on May 15, 2017
"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 17, 2017 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)
"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
"CG Code"	the Corporate Governance Code 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
"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 limited company established under the laws of the PRC and a subsidiary of the Company
"Chongqing Anle Services"	Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Chongqing Baitayuan"	a cemetery in Yongchuan of Chongqing Municipality and operated by 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 under the laws of the PRC and a 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
"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 Law"	the Law of the PRC on Enterprise Income Tax
"FSG Holding"	FSG Holding Corporation, a company incorporated in BVI on December 6, 2011 and one of the Company's Shareholders
"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
"Global Offering"	the offering by the Company of its 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", "we" or "Fu Shou Yuan Group"	the Company and its subsidiaries
"Guanlingshan Cultural Cemetery"	a cemetery in Tieling City of Liaoning Province and operated by Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.* (遼寧觀陵山藝術園林公墓有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Haigang Fu Shou Yuan"	a cemetery in Pudong New District of Shanghai (上海浦東新區) and operated by Shanghai Nanyuan Industrial Development Co. Ltd.* (上海南院實業發展有限公司), a company established in the PRC and a subsidiary of the Company

DEFINITIONS AND GLOSSARY

"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"	a cemetery in Longhu Town, Zhengzhou of Henan Province (河南省新鄭市龍湖鎮) and operated by Henan Fu Shou Yuan Industrial Co., Ltd.* (河南福壽園實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Hongfu"	Shanghai Hongfu Investment Development Co., Ltd.* (上海鴻福投資發展有限公司), a limited liability company established in the PRC on November 28, 2000 and owned as to 50% by NGO 1 and 50% by NGO 2, one of the Company's Shareholders
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Huaibei Fangshan Cemetery"	A cemetery in Huaibei City of Anhui Province and operated by Huaibei Fu Shou Yuan Memorial Park Co., Ltd.* (淮北福壽園紀念陵有限責任公司), a limited company established under laws of the PRC and a joint venture of the Company
"Jinzhou Maoshan Anling"	a cemetery in Jinzhou City of Liaoning Province and operated by Jinzhou City Maoshan Anling Co., Ltd.* (錦州市帽山安陵有限責任公司), a limited company established under the laws of the PRC and a 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)
"Luoyang Xianhe Cemetery"	A cemetery in Luoyang City of Henan Province and operated by Luoyang Xianhe Memorial Cemetery Co., Ltd.* (洛陽仙鶴紀念陵園有限公司), a limited company established under the PRC and a subsidiary of the Company since January 2017
"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 limited company established under the laws of the PRC and a subsidiary of the Company
"NGO 1"	Shanghai Zhongmin Elderly Affairs Development Service Centre* (上海中民老齡事業開發服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on facility developments, and one of the Company's indirect Shareholders
"NGO 2"	Shanghai Zhongmin Elderly Affairs Consultancy Service Centre* (上海中民老齡事業諮詢服務中心), a private non-enterprise unit (民辦非企業單位) established in the PRC on July 26, 2013 and administered by Shanghai Qingpu Administration of Civil Affairs with an objective of furthering social welfare benefits, with an emphasis on advisory services, and one of the Company's indirect Shareholders
"Nomination Committee"	the nomination committee of the Company
"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"	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 limited company established under the laws of the PRC and a subsidiary of the Company
"Shandong World Trade Centre"	Shandong World Trade Centre* (山東世界貿易中心), a 50% shareholder of Shandong Fu Shou Yuan
"Shanghai Fu Shou Yuan"	a cemetery in Qingpu District of Shanghai and operated by Shanghai FSY Industry Development Co., Ltd.* (上海福壽園實業發展有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company

DEFINITIONS AND GLOSSARY

"Shanghai Zhongfu"	Shanghai Zhongfu International Trade Co., Ltd.,* (上海眾福國際貿易有限公司), a company established in the PRC. It was a wholly-owned subsidiary of Zhongfu
"Share(s)"	ordinary share(s) with a nominal value of US$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on December 3, 2013
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs (as amended, supplemented or otherwise modified from time to time)
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollar"	United Stated dollars, the lawful currency of the United States
"Wish and Catch"	Wish and Catch Limited, a limited liability company incorporated in BVI on June 28, 2013, wholly-owned by Bai Xiaojiang (白曉江), the chairman and one of the executive Directors of the Company
"Wuyuan Wanshoushan Cemetery"	a cemetery in Wuyuan of Jiangxi Province and operated by Wuyuan Wanshoushan Lingyuan Co., Ltd.* (婺源縣萬壽山陵園有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"Year"	year ended December 31, 2016
"Zaozhuang Shanting Xingtai"	Zaozhuang Shanting Xingtai Funeral Service Co., Ltd.* (棗莊市山亭興泰殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2016
"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 or transliteration of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.