福壽園國際集團

FU SHOU YUAN INTERNATIONAL GROUP

01448.HK

2018 ANNUAL REPORT

福壽園國際集團有限公司

FU SHOU YUAN INTERNATIONAL GROUP LIMITED

Stock code: 01448

Incorporated in the Cayman Islands with limited liability

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
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

Ms. Hu Yi [(1)]

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang
Ms. Hu Yi [(2)]

REGISTERED OFFICE

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P.O. Box 1350
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Grand Cayman KY1-1108
Cayman Islands

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KY1-1108
Cayman Islands

Notes:

(1) With effect from September 13, 2018, Ms. Hu Yi has been appointed as the company secretary of the Company in place of Mr. Tsoi Ka Ho, who was appointed as the company secretary of the Company to replace Mr. Zhang Jingming on May 7, 2018.

(2) With effect from September 13, 2018, Ms. Hu Yi has been appointed as an authorized representative of the Company in place of Mr. Tsoi Ka Ho, who was appointed as an authorized representative of the Company to replace Mr. Zhang Jingming on May 7, 2018.

CORPORATE INFORMATION

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PRINCIPAL BANKERS
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Construction Bank of China
Shanghai Rural Commercial Bank
Bank of Communications
Bank of Shanghai
Citibank, N.A.

AUDITOR
Deloitte Touche Tohmatsu

STOCK CODE
1448

WEBSITE
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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Fu Shou Yuan International Group Limited, I hereby present the 2018 full-year results of the Group.

During the Year, the Group recorded revenue of RMB1,651 million, representing an increase of 11.8% compared with 2017. Net profit was RMB615.6 million, representing an increase of 11.9% compared with 2017, of which profit and comprehensive income attributable to owners was RMB488.4 million, representing an increase of 17.0% compared with 2017. The Board proposes a final dividend of HK3.72 cents per Share for 2018 to the Shareholders. Together with the interim dividend of HK3.72 cents per Share distributed during the Year, the total dividend for the full year of 2018 is HK7.44 cents per Share, which is in line with the Group's committed dividend policy to reward all investors for their support.

During the Year, the Group kept on consolidating the existing businesses. Leveraging the leading position of our well-established brand, good service reputation and high recognition from the government, we secured more opportunities for our business expansion. Meanwhile, the Group has successfully tapped into new markets by establishing footprint in the three provinces of Guizhou, Inner Mongolia and Hubei and autonomous region. Currently, we have gained a foothold in more than 30 cities in 15 provinces, autonomous regions and direct-controlled municipalities, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia and Hubei. By the end of 2018, we had 20 cemeteries and 22 funeral facilities in operation.

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

The death care service industry is facing immense room and impetus for development because of urbanization, aging population and the increasing pursuit of quality death care services by the general public. The central government has speeded up the market-oriented reform of the death care service industry through promoting its strategy on the separation of its supervisory role from operator role. It encourages capitals from the community to participate in selected death care services. The Group will benefit during the course of such reform. In addition, the PRC government has regulated non-compliances of the industry recently through special rectification task forces. The Group considers that such measures are conducive to the healthy development of the Group and the industry, and enhance both the operating and business environment of the Group.

The Company strongly agrees with the report delivered at the 19th National Congress of the Communist Party of China that the current divisions in society derive from the unbalance between the ever-increasing demand of a good life from the people and the shaky and incomprehensive development. The Company holds the view that Chinese people's pursuit of high-quality, humane and respectable death care services is reasonable and should be satisfied, for such services are important components of a good life. The death care service industry of China is improving, but in terms the quality of facilities, environment, products, services and staff and so on, the variations between different regions are still large. The burial services and funeral facilities are still lagging behind in many regions. As such services fail to achieve its function of making people pass away respectfully with dignity, it has created a large expectation gap on the death care services between the general public and the operators in those regions. In this connection, the Chinese death care service industry does require a supply-side structural reform. The Company advocates and provides with a philosophy of "man as essential", services with rich cultural content that follow the direction of society and civilization progress. The Company is one of the best death care service enterprise in every city we have entered; we get hospitable reception from our customers and recognition from the peers and the government.

CHAIRMAN'S STATEMENT

To enable more general public to use our high quality and humane death care services, we speeded up our outreach initiatives. In this connection, our coverage extended from an initial one region (i.e. Shanghai) to 15 provincial regions. At the same time, we enlarged our plan on the industry chain. Our business scope has been extending steadily from burial services upon inception to five segments including burial services, funeral services, machinery, design services and pre-need services. Since 2019, we have embarked on establishing Fu Shou Yuan's own merchandise brand, by giving impetus to the research and development of new products and the re-creation of conventional goods, thereby further improving the supply chain. The synergy created by each of these segments greatly enhanced our capability in providing comprehensive services to our customers. In addition, in January 2019, the Group participated in the establishment of a Limited Partnership for funeral and cemetery buyout fund. Such cooperation maximizes each party's respective advantages in investment, financing and professional fields in China or abroad. It also forms an effective resource alignment between capital and service projects, which will assist further exploring the potential opportunities to grow, achieving more quality projects and enlarging our business map.

During the year, the Group has been exploring more business and social value of pre-need contract for funeral services and has attained sound reaction from the market. We established Fu Shou Home Life Care Community Service Centre. We provide community services to the elderly and their families regarding elderly charities, legal support, psychological aid, palliative care, etc. We also prepared pre-need funeral solution to settle farewell ceremonies for the weak groups who rely on government compensation for living. Such solution was much appreciated and brought us purchase orders. Meanwhile, we believe that, against the backdrop of aging population with fewer children, pre-need services will appeal to more customers who wish to arrange their funeral matters in advance by themselves and keep on bringing about a stable source of customers to funeral and burial segments.

During the year, the Group thrived to promote and upgrade our products and has achieved steady growth. Our environmental-friendly cremation machines obtained an invention patent issued by the State. 12 sets of cremation machines have been installed in Group's funeral parlors and external parties (a total of 15 sets of cremation machines have been installed in Group's funeral parlors and 11 sets with external parties). The installed and operating cremation machines were operating smoothly with exhaust gases complying with environmental standards. We won bids to supply cremation machines to a state-owned funeral parlour in Wuhan, Hubei Province and a funeral parlour in Shangrao, Jiangxi Province, in June and August 2018 respectively.

During the year, adhering to the Group's primary mission to make people pass away respectfully with relief and dignity, we have been active in participating in all kinds of social welfare and charitable activities, covering cultural education, public welfare, poverty alleviation, charitable fundraising, hospice care and eco-environmental protection aspects, in order to provide community services and to promote environmental-friendly and land-saving burial projects. We have been continually exploring new modes of civil services for people's welfare. In January 2018, we won three awards in the 7th China Charity Festival. In January 2019, we established "Shanghai Fu Shou Yuan Public Welfare Development Foundation" for better integration of Fu Shou Yuan's public welfare undertakings to help the poor, the disadvantaged, the aged, the widowed, the illed, and the disabled. Such foundation will enable us undertake more social responsibilities and further improve our corporate image. The Group has carried out a series of life education activities jointly with many well-known universities across the country, and has promoted industrial extension through such cultural activities.

CHAIRMAN'S STATEMENT

During the year, the Group communicated with peers and organizations in Korea, Japan and Mongolia etc., to conduct field visits, foster future cooperation, and steer industrial development. In September, the plate unveiling ceremony of the "Friendship Public Cemetery" of the Group and the Bolivia Memory Park was held in Cochabamba, Bolivia. Both parties reached a preliminary mutual agreement on strategic cooperation to promote the memorial complex project in downtown Santa Cruz, Bolivia. In addition, Fu Shou Yuan Life Service Academy and NFDA from the United States have reached a preliminary intent of organizing an exchange on education resources. It has been continuously putting efforts into the training sessions towards managers and professional staffs and preaching the Group's culture and management ideology, in order to cultivate more elites for the industry and to enhance the development of death care service industry.

In June 2018, Shanghai Fu Shou Yuan Humanism Memorial Museum won the award of "Pioneer Enterprise for Patriotism Education Base of Shanghai 2016–2017", while Ms. Yi Hua, the Chief Brand Officer of the Group, was awarded the honor of "Pioneer for Patriotism Education Base of Shanghai 2016–2017". In July, the Group received the award of "2018 Influential Brand of the Industry" in the 7th China Finance Summit. In November, Shanghai Fu Shou Yuan was named the 2018 Excellent Member of the Shanghai Public Relations Association. At the 7th China Finance and Economic Summit, the Group won the "2018 Industry Impact Brand" Award. We also won the "Innovative Enterprise Award" of the 9th China Talent Development Elite Awards for our industry training implementation and talent introduction and selection. Two employees from our funeral service team in Chongqing and Hefei were awarded the First-Class Prize and Third-Class Prize from "National Talent Competition of Funeral Services" (全國殯儀服務技能大賽) respectively. During the year, the Group received a number of honors including the Group level, subsidiary level, organization level as well as individuals. Such honors reflected the progress made by the Group in regard of professional capability, brand recognition, social welfare contribution, cultural connotations, educational meanings, and innovations. Such honors also meant unanimous recognition from the society to the Group.

Ms. Yi Hua, the Chief Brand Officer was awarded as the Woman pace-setter of Shanghai, which is the highest distinction among female in Shanghai, further recognized the tremendous efforts the Group has paid over two decades in the death care industry. It is another testament, following the honour of the national honorary model of labour received by Mr. Wang Jisheng, the Chief Executive, to the significance of modern death care industry meant for the flourish of ecological civilization and the construction of spiritual civilization, altering the public's perception towards the industry service providers. As Ms. Yi Hua mentioned in the "Life Cantabile" themed speech, a city or a country shall not only be "livable", but also "heart-dwelling". The provision of death care services is a "heart-dwelling" project, which reflects conceptual values and forms the root and source for a family, a society or even a country to remain true to original aspiration, and embrace the future.

Looking at the past five years since we listed, our business expanded from 10 cities in 8 provinces to over 30 cities in 15 provinces. The number of cemeteries and funeral facilities in operation increased from 11 to 42, and 10 projects are under construction. Our revenue increased by 170%. Our profits and comprehensive income attributable to owners increased by 192%. The number of our employees has exceeded 2,200. We have made remarkable achievements through five years' development.

CHAIRMAN'S STATEMENT

Looking forward, under the trend of aging population, urbanization and a rise in cremation rate, there will be an increasing demand for death care services with high expectation over the service quality. We will proactively promote the supply-side structural reform of the death care service industry, and continuously providing customers with various quality death care services. Meanwhile, we will seek opportunities to enter more cities, bring about our humanistic services, advocate traditional culture, and promote urban civilization. We will also capitalize the synergy created by each business segments and take advantage of modern cultural ideology and management expertise in order to enhance the overall service quality of death care service industry and to seek extraordinary opportunities for development along with the industry reform, and as a result, to create higher returns for our shareholders.

Fu Shou Yuan International Group Limited
Bai Xiaojiang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The increasing disposable income per capita in the PRC, vigorous promotion by the government on Chinese traditional culture and virtue, accelerating pace of urbanization, aging population, and pursuit of humane death care services by the general public have been generating huge demand on death care services in recent years. Such increase in demand call for increases in not only the quantity but also the quality and variety of the death care services. All these drivers have enhanced the death care service industry in the PRC to become one of the industries with steady growth rate, and its future growth will accelerate. Although economic growth of the PRC has slowed down in recent years, the death care service industry is relatively less affected by economic cyclical fluctuations.

On September 7, 2018, the Chinese Ministry of Civil Affairs issued the Regulations on Funeral Management (Revised Draft for Inviting Opinions) (《殯葬管理條例 (修訂草案徵求意見稿)》), which aims to shore up the oversight of the PRC death care service industry, drive its transformation, regulate its practices, satisfy public demand for death care services, and protect the dignity of the deceased and the interest of the general public. The Group expects there will be a higher entry barrier for both new and existing participants in the death care service industry. As a distinguished death care service provider and a leader of the industry in China, and consistent with the high standards of compliance that our operations have been meeting with, the Group believe that rectification and regulation will create a better environment with fair competition and adequate room for sustainable development. We will continue our efforts in directing the development of the industry and better serve the general public through our services that meet both the spiritual and cultural requirements. The management of the Group believe that the Bill will help rectify the irregularities in the industry and promote the development of the industry towards institutionalization, marketization and standardization, and eventually promote the long term development of the PRC death care service industry.

In addition, we believe the increasingly stringent environmental protection requirements from the PRC government is providing a good opportunity for the Group, to promote its environmental-friendly cremation machines.

BUSINESS COMMENTARY

During the Year, the Group, as always, continued to consolidate and explore our brand value, put efforts in enhancing the landscaping and cultural setting of existing cemeteries, improve service quality, and offer 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. During the Year, the Group has been proactively adjusting its business portfolio, product and service mix, sales channels, and regional revenue contribution, and has achieved continuous progress. Through such adjustments, we optimized our strategic layout for the industry chain and strategically expanded our funeral service business. As a result, the size of our funeral services regional business and the proportion of its income have been increased. Based on our expectations regarding the development of the death care industry, we also enhanced our landscape design ability for funeral facilities, formed independent business segments, improved the synergy between segments and strengthened our all-round competitiveness. Striving to transform cemeteries into urban cultural parks, we continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while lowering traditional cemeteries so as to improve the effectiveness of land utilization. We also strengthened our sales team and self-operating channels, optimized sales channels and improved our customers' consuming experience. While achieving a steady growth in Shanghai, we also proactively increased our business growth rate in regions outside Shanghai, thus reducing our reliance on Shanghai and optimizing the regional structure of the Group's business. These adjustments helped expand our business scale while focusing on the efficiency, effects and effectiveness of each unit of our business, supporting the Group's sustainable development and improving our core competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group actively expanded its market reach. Business in the provinces where we already had coverage before has been consolidated. With the help of brand advantage, quality service reputation and the government's recognition, we were given more opportunities to expand our market reach. Meanwhile, the Group has successfully tapped into new markets by establishing footprint in 3 provincial regions of Guizhou, Inner Mongolia and Hubei. Currently, our business has entered over 30 cities in 15 provinces, autonomous regions and municipalities in the PRC including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou and Inner Mongolia and Hubei. By the end of 2018, we had 20 cemeteries and 22 funeral facilities in operation.

During the Year, the efficiency of the following construction projects have been increased and significant progress have been achieved: (i) the construction work of the cemeteries and funeral facilities in Bishan District, Chongqing Municipality was completed and operation of the facilities commenced, which as the integrated project provides both funeral and burial services in southwest China and has improved the layout of our industry chain in that area and brought about good economic and social benefits; (ii) a new funeral parlor in Xuancheng City, Anhui Province also commenced operation, which helped enhance the overall service quality of local funeral parlors, and received appreciation from customers and the local government; (iii) construction work of Dafeng and the funeral facility project in Gaoyou and the cemetery projects in Nanchang and Xuancheng were undergoing construction work according to the plan, which may start operation in 2019.

During the Year, our mergers and acquisitions continued to gain positive results. In February 2018, we acquired additional 20% equity interest in Liaoning Guanlingshan Cultural Cemetery, our total equity interest in the cemetery reached to 90%. In May 2018, the Group acquired 100% of equity interest in Chaoyang Longshan Cemetery in Liaoning Province, acquired 80% equity interest in Guizhou Tianyuanshan in Guizhou Province. Tianyuanshan project is the only integrated death care service project in Zheng'an which established its leading position in local market. The project is our first step as well as the footstone for further development in Guizhou Province. In May 2018, the Group also started the acquisition of 100% equity interest in Helinge'er Anyou Cemetery in Inner Mongolia and the completion took place in August 2018. Helinge'er Anyou cemetery, which mainly serves the market of capital city Hohhot, is a strategic pivot to support our future development in Inner Mongolia. In August 2018, we completed the procedure of acquiring additional 25% equity interest in Wuyuan Wanshoushan Cemetery in Jiangxi Province. The cemetery has become our wholly-owned entity after completion of the transaction. In July 2018, the Group entered into an investment agreement with a cemetery in Changchun City, Jilin Province to acquire 10% of its equity interest. In December 2018, the Group entered into an agreement and started the acquisition of 80% equity interest in Tianxian Cemetery in Hubei Province. The completion of the transaction took place in January 2019, and our business made its expansion into Hubei province for the first time.

During the Year, the Group further demonstrated its competitiveness for governmental funeral projects and its capabilities in working with the government. In March 2018, we were awarded the concession to provide funeral services for ten years in a government owned funeral parlor in Xiaoshan District, Hangzhou City of Zhejiang Province. In October 2018, we once again became the winner of a public tender for the concession of building a funeral parlor and operating it for 30 years under the "BOT" mode in Linquan County, Fuyang City. In addition, the Group commenced several PPP funeral services projects for many other local governments: during the Year, we were authorized to provide and have provided funeral services in the funeral parlours of Fenghua County of Zhejiang Province and Kunshan City of Jiangsu Province; we were authorized to establish a funeral parlour in Yanshan County of Jiangxi Province and have commenced operation under the "BOT" mode, with a term of 30 years; we were also authorized to provide funeral services in the funeral parlour in Jintan City of Jiangsu Province upon its completion of construction. As for cemeteries, we reached agreements with the relevant governmental authorities in Qihe County, Shandong Province and Ganzhou City, Jiangxi Province, respectively, for co-financed projects of constructing new cemeteries during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group promoted pre-need contracts for funeral services and made impressive achievements during the Year. Based on more than twenty years of experiences on death care services and our knowledge regarding local customs and customer needs in different places, we kept upgrading the funeral service mix, and put together an open, transparent and standard service contract. We established Fu Shou Home Life Care Community Service Centre. We participated in community activities and provided community services to the elderly and their families regarding legal support, psychological aid, palliative care, etc. We also prepared pre-need funeral solution to settle the farewell ceremonies for the vulnerable groups who rely on government compensation for living. Such solution was much appreciated by the vulnerable groups and brought us purchase orders, achieving 383 orders in 3 batches of collective purchase from the governments of Hefei, Nanchang, Quanzhou. From sales channel aspect, we also worked with endowment and insurance institutions and designed a set of promotion routine and dialogue context which are practical for communicating with customers about pre-need services under non-funeral scenes. Our online sales platform was officially launched during the Year. Pre-need services were able to secure customers in advance and to bring about a stable source of customers to funeral and burial segments. Meanwhile, we believe that, under the backdrop of aging population with fewer children, pre-need services will appeal more customers who would like to arrange their funeral matters in advance by themselves. The Group will actively explore more social value and business value of pre-need services. As of the end of 2018, the Group has been offering pre-need contract for funeral services in 15 cities of 10 provisional regions. We signed a total of 2,485 contracts during the Year, representing an increase of 111.7% (2017: 1,174 contracts).

During the Year, our environment-friendly cremation machines obtained an invention patent issued by the State. We installed twelve sets of new cremation machines in funeral parlours inside and outside the Group (a total of 15 cremation machines have been installed in our Group and 11 outside the Group). Those cremation machines that had been installed were all operating smoothly with exhaust gases complying with environmental standard. In June and August 2018, we won a bid to supply eight sets and one set of cremation machine to a state-owned funeral parlor in Wuhan City of Hubei Province and a funeral parlor in Hengfeng County, Shangrao City of Jiangxi Province, respectively. We expect that the environmental-friendly cremation machine business will have considerable contribution to the Group's revenue in the foreseeable future.

Our employees are our most valuable resources. Having developed for many years, we have gathered in our Group talents of the death care service industry and continuously attracted external talents to join us. As a result, we have built up a well-balanced in terms of age and professional death care service team. This team, which bears the Group's concept, works diligently at each of our operating locations. Through their efforts, the Group is able to invent new products, enhance service quality, expand its business, and then offer more value-added services to our customers. During the Year, two employees of the Group's Chongqing and Hefei funeral team were awarded the First-Class Prize and the Third-Class Prize of "National Talent Competition of Funeral Services" (全國殯儀服務技能大賽). We strive to preach and implement the advanced international funeral concepts. The Group's "Culture and Education Committee" and "Fu Shou Yuan Life Service College" continued to train and build up a pool of professionals for future business expansion. During the Year, Life Service College has reached an initial agreement with the NFDA of the United States on the exchange of teaching resources and the enhancement of training exchange with first-class funeral services institutions in Japan. The College will introduce quality teaching resources from overseas so as to facilitate the Group's funeral services training, enhance standardized procedures and improve service standards of the entire industry within the country. During the year, the College co-organized the "Qingming Forum (清明論壇)" with Peking University, the "Interactive Life Education Forum (互動生命教育論壇)" with Nanhua University of Taiwan, and life education-themed activities with numerous colleges and social organizations with a view to publicizing the idea of life education in response to death-related contexts.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, we established a system management center, enhanced standardized management and informationized construction and improved the internal internet facilities of the Group. These will help us optimize operation segments, budgetary control and internal control. In addition, we monitored closely our operations to support the Group's expansion and to increase its operating efficiency. Meanwhile, self-developed cemetery business system has covered every cemetery in the Group, so will the funeral business system in 2019. Combining the marketing system of big data will enable us to go beyond the traditional operating mode. We plan to create new corporate competitiveness and consolidate our leading position in the industry by utilizing powerful online data access and management capacity as well as offline service operating capacity and its geographical influence.

As a result of the above proactive adjustments and arrangements, we achieved a double-digit growth despite a slowdown of China's economy. The Group's revenue amounted to RMB1,651.3 million, representing an increase of 11.8% when compared to 2017. We recorded RMB488.4 million in profit and comprehensive income attributable to owners of the Company, representing an increase of 17.0% when compared to last year.

CHANGE IN PRESENTATION METHOD OF EXPENSES RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

There has been a change in the presentation method of expenses recognized in the statement of profit or loss and other comprehensive income in 2018. The Group adopted the "function of expense" method in preceding years and adopted the "nature of expense" method starting from 2018.

Under the "nature of expense" method, an entity aggregates expenses within profit or loss according to their nature (e.g. staff costs, material consumed, marketing and sales channel costs, depreciation and amortisation). Under the "function of expense" method, an entity classifies expenses according to their function as part of cost of sales or for example, the costs of distribution or administrative activities.

The main reason for the above change in the presentation method is that management of the Group considers its principal business is provision of death care services to its customers as a leading service provider of death care services in the PRC. The "nature of expense" method can provide information that is more reliable and relevant under the existing business model of the Group.

Set out below are the key factors that the management has mainly considered in making the above decision:

(i) to present expenses using "nature of expense" method can better depict the characteristic of the Group, which is the provision of services instead of the selling of goods in the burial and funeral service industry; and

(ii) to present expenses by their nature is more transparent and beneficial for investors to understand the businesses of the Group.

Such change in presentation does not change the Group's final operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

During the Year, our revenue increased by RMB174.1 million or 11.8% to RMB1,651.3 million from RMB1,477.2 million last year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. Revenue from all three segments have increased at different rates during the Year. The following table sets forth our revenue by segment for the Year:

	2018		2017	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Burial services	**1,427,123**	**86.4%**	1,300,045	88.0%
Funeral services	**197,688**	**12.0%**	157,855	10.7%
Other services	**42,825**	**2.6%**	37,138	2.5%
Inter-segment elimination	**(16,337)**	**(1.0%)**	(17,830)	(1.2%)
Total	**1,651,299**	**100.0%**	1,477,208	100.0%

BURIAL SERVICES

The following table sets forth the breakdown of our revenue from burial services, including revenue from the sale of burial plots services and other burial services, for the Year:

	2018		2017	
	No. of burial plots	**Revenue (RMB'000)**	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	**12,509**	**1,282,247**	12,372	1,180,018
Public welfare plots and tomb relocation	**8,403**	**27,208**	10,291	10,493
	20,912	**1,309,455**	22,663	1,190,511
Other burial services		**117,668**		109,534
Total revenue from burial services	**20,912**	**1,427,123**	22,663	1,300,045

The ASP of ordinary business plots increased by 7.5% compared with last year, which was mainly attributable to our increasing service quality, expanding service scope, and enhancing cultural values included in our services. Accordingly, our value-added services are enhanced, which was demonstrated by higher prices.

During the Year, the total number of ordinary business burial plots sold slightly increased by 137 when compared to last year, representing an increase of 1.1%, which was mainly attributable to our new cemeteries from acquisitions and mergers during the Year. The following table sets forth the breakdown of revenue of sale from burial plots services for ordinary business purpose from our new (i.e. those related to acquisitions/new construction) and old (i.e. comparable cemeteries) cemeteries during the Year:

	2018		2017	
	No. of burial plots	**Revenue (RMB'000)**	No. of burial plots	Revenue (RMB'000)
Sale of burial plots services for ordinary business purpose, from:				
Comparable cemeteries*	**11,191**	**1,231,293**	12,252	1,174,668
Cemeteries related to acquisitions/ new construction	**1,318**	**50,954**	120	5,350
Total revenue from sale of burial plots services for ordinary business purpose	**12,509**	**1,282,247**	12,372	1,180,018

* Comparable cemeteries refer to those cemeteries owned by the Group for the entire period from January 1, 2017 to December 31, 2018.

During the year, the ASP of ordinary business plots of comparable cemeteries increased when compared to last year, but the number of sales declined when compared to last year. This was mainly due to our proactive adjustment of our operations, which increased: (i) the number of small burial plots sold; (ii) the number of artistic burial plots sold while reducing the number of traditional burial plots sold; and (iii) the revenue contribution from our own sales teams. All these changes further enhanced our comprehensive quality of services and satisfaction from our customers. These changes are also beneficial to the healthy development of the Group in the long run.

During the Year, the number of burial plots sold for ordinary business purpose in the new cemeteries was 1,318, but their ASP was lower than those of the comparable cemeteries as these new cemeteries need time to improve their landscape, increase the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers and to increase the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals.

MANAGEMENT DISCUSSION AND ANALYSIS

FUNERAL SERVICES

The following table sets forth the breakdown of revenue from our new (i.e. those related to acquisitions/new construction) and old (i.e. comparable facilities) funeral facilities during the Year:

	2018		2017	
	No. of customers	**Revenue (RMB'000)**	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	**18,536**	**161,173**	18,366	152,714
Facilities related to new acquisitions/new construction	**17,955**	**36,515**	2,154	5,141
Total revenue from funeral services	**36,491**	**197,688**	20,520	157,855

* Comparable facilities refer to those funeral facilities owned by the Group for the entire period from January 1, 2017 to December 31, 2018.

Our revenue from funeral services increased by RMB39.8 million or 25.2% to RMB197.7 million for the Year from RMB157.9 million for last year. Such increase was mainly due to an increase in revenue from the comparable funeral facilities and the contribution of our new funeral facilities starting from the second half of last year and during the Year. Both the ASP and service volume derived from the comparable funeral facilities increased during the Year as compared to last year. The ASP of these new funeral facilities was lower than that of the comparable funeral facilities, as most of these newly operated funeral facilities only offered basic services to their customers before our operation. These funeral facilities will provide high quality services to customers through introduction of new management and a variety of humanized funeral services after our operation. With the increased service items, improved service quality, and commencement of marketing activities, the Group's revenue from funeral services has much room to grow.

GEOGRAPHIC INFORMATION

Our cemeteries and funeral facilities under operation are strategically located in major cities across 13 provinces, municipalities and autonomous regions in the PRC. The following table sets forth a breakdown of our revenue from burial services and funeral services by region:

	2018		2017	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Shanghai	**862,165**	**53.1%**	780,296	53.5%
Henan	**98,171**	**6.0%**	88,265	6.1%
Chongqing	**70,404**	**4.3%**	70,563	4.8%
Anhui	**158,072**	**9.7%**	137,334	9.4%
Shandong	**69,116**	**4.3%**	59,718	4.1%
Liaoning	**175,037**	**10.8%**	174,109	11.9%
Jiangxi	**55,071**	**3.4%**	45,924	3.2%
Fujian	**37,735**	**2.3%**	33,636	2.3%
Zhejiang	**17,359**	**1.1%**	8,341	0.6%
Jiangsu	**52,944**	**3.3%**	57,017	3.9%
Guangxi	**11,755**	**0.7%**	2,697	0.2%
Inner Mongolia	**9,958**	**0.6%**	—	—
Guizhou	**7,024**	**0.4%**	—	—
Total	**1,624,811**	**100.0%**	1,457,900	100.0%

Revenue in most regions increased during the Year mainly because of revenue contributions from newly acquired or operated cemeteries and funeral facilities, as well as the growth in revenue from comparable funeral facilities and cemeteries.

OTHER SERVICES

Revenue from other services for the Year mainly represented the revenue generated from our professional design services offered to cemeteries and funeral parlors throughout PRC and the revenue from the sales of environmental-friendly cremation machines. During the Year, we recorded revenue from design services of RMB33.5 million. We acquired a subsidiary specialized in providing design services in August 2017. The subsidiary improves our business chain in the death-care industry and effectively support the growth in other services segment. During the Year, we also recorded revenue from the sales of cremation machines of RMB9.3 million. We believe that the cremation machine business will make considerable contribution to the Group's overall revenue in near future.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for 56.2% of our total revenue for the Year (2017: 56.6%), increased by RMB92.4 million or 11.0% from RMB836.0 million last year to RMB928.4 million. The increase in operating expenditure is mainly attributable to an increase in operating expenses of RMB84.8 million arising from newly acquired and operated cemeteries and funeral facilities during the Year. Despite an increase in revenue from other comparable facilities, there was only a slight increase in operating expenses of RMB7.6 million or 0.9% due to more refined management and effective cost control.

The Group's staff costs include staff salaries, bonuses, benefits and amortization of share option cost. During the Year, the staff costs increased by RMB46.8 million or 13.2% from RMB354.4 million last year to RMB401.2 million. The increase was mainly due to an increase in the number of employees as a result of the expansion of the Group's business footprint and enhanced effort in developing our direct sales team as well as the increase in incentives for our direct sales team. It was partially offset by a decrease in the amortization of the cost of certain share options upon expiry of vesting periods for such options.

The construction cost represents our expenditures in building burial plot products (excluding stone materials). During the Year, the product construction cost increased from RMB54.1 million last year by RMB16.0 million or 29.6% to RMB70.1 million, as we have been offering more beautiful environment, higher service quality, more timely and diversified choices to our customers.

Consumed materials and goods represent materials and goods consumed when we provide burial, funeral and other services. They also include the materials and goods consumed when we build burial plots and cremation machines. During the Year, the consumed materials and goods increased from RMB109.1 million by approximately RMB8.0 million or 7.3% to RMB117.1 million, which is mainly due to the business growth during the Year.

Marketing and sales channel costs mainly include advertising costs, marketing costs, and sales commission. During the Year, the marketing and sales channel costs decreased by RMB17.9 million or 29.0% to RMB43.9 million from RMB61.8 million last year. Such decrease was mainly attributable to the optimization of our sales channel in certain regions, enhancement of our direct sales team to ensure the systematicness and high quality of our services, and commission policy adjustment to gradually reduce the reliance on external sales agents.

During the Year, depreciation and amortization increased by RMB18.0 million or 24.1% to RMB92.7 million from RMB74.7 million last year, which is mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from the second half of last year.

Other general operating expenditures increased by RMB18.5 million or 15.6% to RMB137.7 million compared to last year, which is mainly due to expenditures from the newly acquired and operated burial and funeral facilities during the Year.

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, our operating profit increased by 12.7% or RMB81.7 million to RMB722.9 million for the Year from RMB641.2 million for last year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Year:

	2018		2017	
	Operating Profit (RMB'000)	**Operating Profit Margin**	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	**712,773**	**49.9%**	620,347	47.7%
Funeral services	**19,858**	**10.0%**	27,419	17.4%
Other services	**(9,098)**	**(21.2%)**	(1,988)	(5.4%)
Inter-segment elimination	**(639)**	**3.9%**	(4,612)	25.9%
Total	**722,894**	**43.8%**	641,166	43.4%

During the Year, the operating profit margin of burial services increased to 49.9% from 47.7% for the last year mainly because of higher ASP of burial plots sold and effective cost control.

The new funeral facilities contributed the majority of the revenue growth of funeral services during the Year. These new facilities provide both basic funeral services and value-added funeral services. As most of these new funeral facilities are still in their initial stage of development, it takes time for them to steadily enhance their services and for their customers to know and then purchase their value-added services. Therefore, the profit margin of funeral facilities was dragged down by the new ones. As a result, the operating profit margin of funeral service segment decreased to 10.0% for the Year from 17.4% for the last year. We expect that these new funeral facilities will increase their ASP, service volume and profitability in future.

During the Year, other service segment recorded an operating loss of RMB9.1 million which was mainly due to the operating costs incurred for cremation machines during the trial sale period. We are optimistic about the future of the business on our environmental-friendly cremation machines under the back-drop of tightening the rules and regulations on environmental protection by the government. The subsidiary, which offers design services was newly acquired in the second half of last year and has delivered satisfactory results during the Year, but it is still not sufficient to turn the whole segment of other services to be profitable.

FINANCE COSTS

Finance costs for the Year consisted of interest expenses of RMB5.0 million on bank loans (2017: RMB6.0 million), and interest expenses of RMB3.1 million (2017: RMB9.6 million) on loans from non-controlling shareholders of certain subsidiaries.

Interest expenses on loans from non-controlling shareholders represent the interest expenses of loans borrowed by certain non-wholly-owned subsidiaries from their non-controlling shareholders. These subsidiaries were jointly invested by the Group and those non-controlling shareholders. Our Group and such non-controlling shareholders jointly provided funding to these subsidiaries for their land acquisition and cemetery development via shareholders' loan based on the respective shareholding percentages in addition to the registered capital. The interests are charged based on the market rates.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses for the Year mainly include interest income, government grants received, exchange gains and losses, losses from assets disposal, donations and etc.

INCOME TAX EXPENSE

Under the EIT Law and its Implementation Regulations, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. Our effective corporate income tax rate for the Year was 20.5% (2017: 19.7%). The difference between the standard tax rate of 25% and the effective tax rate of 20.5% for the Year can be attributable to the following factors: (i) certain subsidiaries in western regions of China are 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 earned from bank deposits placed in Hong Kong is free from any income tax according to relevant Hong Kong tax rules; (iii) certain subsidiaries enjoy a tax deduction on exercise of share options by their employees as agreed by relevant tax authorities; and (iv) the Group reverses certain prior year tax provisions when tax uncertainties on such provisions have been resolved.

The income tax expenses increased by RMB24.5 million, or 18.2%, to RMB159.1 million for the Year from RMB134.6 million last year, mainly due to the increase of profit before tax as a result of business growth and the combined effects of the above factors during the Year.

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

As mentioned above, our profit and total comprehensive income attributable to owners of the Company increased by approximately RMB71.0 million, or 17.0%, to RMB488.4 million for the Year from RMB417.4 million for last year. This increase was primarily due to: (i) the overall growth of our revenue by 11.8%; (ii) the effective cost controls resulting in the stable increase of operating profit margin; and (iii) the more effective fund management.

CASH FLOW

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

	2018 (RMB'000)	2017 (RMB'000)
Net cash generated from (used in)		
— operating activities	**769,316**	648,172
— investing activities	**(1,120,260)**	134,672
— financing activities	**(92,397)**	(84,758)
Total	**(443,341)**	698,086

* An amount of RMB98.8 million related to the payment for cemetery land acquisition was here classified under the cash used in investing activities, instead of cash used in operating activities. This classification does not comply with International Financial Reporting Standards, however the management considers that this classification can reflect better the nature of the Group's business and can make the information disclosed more comparable.

MANAGEMENT DISCUSSION AND ANALYSIS

We generated our cash from operating activities primarily from proceeds of our death care service businesses. Our cash used in operating activities is primarily for the development and construction of burial plots, and other operating expenditures. Our net cash generated from operating activities amounted to RMB769.3 million for the Year, representing an increase of RMB121.1 million or 18.7% as compared to last year, maintaining our sharpness as always in generating cash from our operating activities.

During the Year, we used net cash of RMB1,120.3 million in investing activities. It was primarily due to: (i) net increase of time deposits and other financial assets of RMB644.7 million; (ii) payment of RMB307.4 million to acquire subsidiaries and other investments; (iii) payment of RMB113.5 million to acquire land use rights, including a piece of land for cemetery development purpose located in Nanchang City of Jiangxi Province, a piece of land for cemetery development purpose and another piece of land for funeral parlor construction purpose located in Xuancheng City of Anhui Province, and a piece of land for cemetery development purpose located in Qinzhou City of Guangxi Autonomous Region; (iv) payment of RMB76.6 million to build new burial and funeral facilities in Bishan District of Chongqing Municipality, Xuancheng City of Anhui Province, Zheng'an County, Zunyi City of Guizhou Province, Nanchang City and Yanshan County of Shangrao City in Jiangxi Province and Dafeng District of Yancheng City in Jiangsu Province; and (v) capital expenditures of RMB26.8 million for upgrades and maintenance in other cemeteries and funeral facilities. Such cash outflows were partially offset by interest received of RMB54.4 million.

Our net cash used in financing activities amounted to RMB92.4 million for the Year. It was primarily due to: (i) final dividends for 2017 and interim dividends for 2018 paid to shareholders of the Company of RMB129.7 million, (ii) dividends paid by subsidiaries to their non-controlling shareholders of RMB114.5 million, (iii) interest payment of RMB15.7 million for our borrowings, and (iv) a net decrease of RMB9.2 million of bank borrowings. These cash outflows were partially offset by: (i) the proceeds of RMB158.1 million received upon exercise of share options by our employees; and (ii) the net capital and loan contribution from the non-controlling shareholders of certain of our non-whole owned subsidiaries totaled at RMB18.6 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2018, we had bank balances and cash of RMB1,493.7 million (December 31, 2017: RMB1,937.0 million), time deposits of RMB48.3 million (December 31, 2017: RMB10.0 million) and financial assets of RMB577.4 million (December 31, 2017: NIL), which is the cash management products with low to medium risk, mostly capable of termination on short notice and maturing within 6 months or maturing upon the call to withdraw cash by discretion of the Company, and are highly diverse and managed by a number of state-owned banks. The expected return rates range from 2.2% to 4.30% per annum. Please refer to the Note 25 to the consolidated financial statements for the details of the financial assets we held as at December 31, 2018. The Group has been holding relatively high balance of cash to support its expansion strategy. To reasonably improve the cash yield, the Group put certain treasury funds into short term cash management products where the safety and liquidity of the funds are ensured. The products are issued and managed by the state-owned banks, with explicit expected yield rates and specific maturity dates or redeemable on call. Even though the principals and return rates of such products are in theory and as stipulated, determined by reference to the performance of the underlying government debt instruments, treasury notes and corporate bonds with high credit ratings, and not guaranteed by the banks, they are secured in substance considering the features and historical performance of such products and present situation of bank system in the PRC. We internally regard our treasury fund put in such cash management products as part of our cash balance, however, from the accounting point of view, they are classified as the financial assets at fair value through profit or loss and the fair value is equivalent to the principal amount. In the foreseeable future, we expect to fund our capital expenditure, working capital and other capital requirements from the cash generated from our operations, bank borrowings, and other financing channels.

MANAGEMENT DISCUSSION AND ANALYSIS

We had outstanding bank borrowings of RMB103.9 million as at December 31, 2018. Of this outstanding balance, RMB75.0 million is repayable within one year, RMB15.0 million is repayable within two years and RMB13.9 million is repayable within three years. These borrowings were dominated in RMB and were subject to floating interest rates ranging from 4.35% to 4.998% per annum. As at December 31, 2018, a non-wholly owned subsidiary of the Group had a loan of RMB32.0 million due to its non-controlling shareholder. The interest rate of the loan was 5.655% per annum without a specific repayment schedule. Another non-wholly owned subsidiary of the Group also had a loan of RMB27.0 million due to its non-controlling shareholder. Such loan is repayable within one year with interest rate at 4.35% per annum.

In addition, we had undrawn bank borrowing facilities of approximately RMB2,346.1 million as at December 31, 2018.

GEARING RATIO

Gearing ratio is total borrowings divided by total equity at the end of each financial period multiplied by 100%. Our gearing ratio as at December 31, 2018 was 4.0% (December 31, 2017: 4.6%). Our operation has been lightly leveraged because of our good cash generating capability from our operating activities. Although we expect that our capital expenditure in the following years will maintain at a relatively high level, we do not anticipate our gearing ratio will substantially increase considering the balance of bank and cash on hand. Therefore, we are exposed to limited interest rate risk.

CURRENCY RISK

The Group conducts its businesses in the PRC and its functional currency is RMB. However, certain bank balances are denominated in foreign currencies, which exposed the Group to foreign currency risk. As at December 31, 2018, the financial assets, time deposits, bank balances and cash held in RMB, HK$ and US$ accounted for 94.9%, 3.5% and 1.6% respectively, of the total amount of these assets. We believe the current level of financial assets, time deposits, bank balances and certain payables denominated in foreign currencies expose us to a limited and manageable foreign currency risk. The management controls foreign currency risk by strictly managing the size of foreign currency risk exposure and closely observing the movement of foreign currency rates. We may, if necessary, hedge against foreign currency risk using financial instruments.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 2018, we signed an agreement to acquire additional 20% equity interest in Guanlingshan Cultural Cemetery, one of our non-wholly owned subsidiaries, at a consideration of RMB120.0 million. Such transaction was completed in March 2018. Upon completion of the transaction, our equity interest in Guanlingshan Cultural Cemetery increased to 90%. For details, please refer to our announcement dated February 12, 2018.

In May 2018, we completed a transaction to acquire 100% equity interest in Chaoyang Longshan Cemetery at a consideration of RMB28.6 million and any taxes incurred during the transaction. Chaoyang Longshan Cemetery mainly provides burial services in Chaoyang City of Liaoning Province.

In May 2018, we signed an agreement in which we shall acquire 100% of equity interest of Helinge'er Anyou Cemetery by phases at a total consideration of RMB108 million and any taxes incurred during the transaction. The acquisition was completed in August 2018. Helinge'er Anyou Cemetery mainly provides burial services in the Hohhot City of the Inner Mongolia Autonomous Region. For details, please refer to our announcement dated May 4, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In May 2018, we acquired 80% equity interest in Guizhou Tianyuanshan at a consideration of RMB41.8 million and a further capital injection of RMB30.2 million to fund its capital expenditure. Guizhou Tianyuanshan holds the only permission from the local government to build and operate a funeral parlor and cemetery in Zheng'an County, Zunyi City of Guizhou Province, under the "BOT" model. The authorized operation period is 40 years starting from June 30, 2017.

In June 2018, we acquired an additional 25% equity interest in Wuyuan Wanshoushan Cemetery, one of our non-wholly owned subsidiaries at a consideration of RMB4.5 million through an auction. The acquisition was completed in August 2018.

In July 2018, we made a capital injection of RMB29.0 million to a cemetery in Changchun City, Jilin Province to acquire its 10% equity interest. It mainly provides burial services in Changchun City of Jilin Province.

In December 2018, we signed an agreement to acquire 80% equity interest in Hubei Tianxian Cemetery at a consideration of RMB40.0 million. It mainly provides burial services in Xiantao City and Tianmen County of Hubei Province. The acquisition was completed in January 2019.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2018, we had 2,235 full-time employees (December 31, 2017: 1,836). We offer competitive packages and benefits to our staff. 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 necessary skills and are remunerated according to their performance.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of acquisition of subsidiaries, land use rights, other investments, cemetery assets and property and equipment in a total amount of approximately RMB144 million as at December 31, 2018. We also planned to provide approximately RMB335 million for the construction of new cemeteries and funeral facilities in Xuancheng City, Qinzhou City, Nanchang City, Ganzhou City, Gaoyou City, Qihe County of Shandong Province and Fuyang City.

We expect our capital expenditure in 2019 and afterwards will maintain at a relatively high level as we are actively seeking for industry consolidation and government-enterprise collaboration opportunities and are being approached by many projects.

ASSETS PLEDGED

As at December 31, 2018, we pledged 80% equity interest in Changzhou Qifengshan Cemetery to secure the bank borrowings granted to finance the acquisition of this subsidiary. Except for that, no other assets of the Group were pledged or charged.

MANAGEMENT DISCUSSION AND ANALYSIS

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.20 million sq.m. as at December 31, 2018 (December 31, 2017: approximately 1.96 million sq.m.), which was sufficient to satisfy the needs of the Group's sustainable operation in the long run. When we determine the saleable area of each cemetery, we have already estimated and excluded those areas not for construction of tombs, such as the areas in connection with business centres, office buildings, landscaping and main roads. Such estimation may be updated from time to time as our development plan may be improved from time to time.

CONTINGENT LIABILITIES

As disclosed in our announcements dated January 8, 2016 and January 23, 2017, one of our indirect and non-wholly owned subsidiaries, Wuyuan Wanshoushan Cemetery, was involved in a couple of lawsuits as a defendant. We had closed most of the lawsuits without substantial losses by the end of year 2017, with two outstanding lawsuits remaining. There has been no notifiable progress on these two lawsuits during the Year. Their status remains substantially unchanged from those set out in our latest announcement on the matter. An aggregate of claim amount of approximately RMB43.2 million was involved in these two lawsuits. Furthermore, the plaintiffs in the other two lawsuits which had been closed, lodged appeal to higher level courts in the second half of 2018, with an aggregate of claim amount of approximately RMB11.3 million. Therefore, as at December 31, 2018, there were four lawsuits outstanding, with an aggregate of claim amount of approximately RMB54.5 million (including the claimed principal and contingent interests).

We are still in the process of taking all necessary steps, including by close cooperation with the public security department, in reversing the judgements and vigorously defending against the proceedings. As of December 31, 2018, after taking into account of the legal opinion and the current status of the proceedings and investigation, the Directors were of the view that the proceedings would in the end result in a material adverse impact on the financial position and business operation of the Group was not probable and concluded that no provision should 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.

EVENTS AFTER THE REPORTING PERIOD

On January 22, 2019, a wholly-owned subsidiary of the Group entered into a limited partnership agreement with Yongying and Linxin in respect of the setting up of a funeral and cemetery buyout fund and the subscription of interests therein. Pursuant to the limited partnership agreement, the total capital commitment to the limited partnership fund is RMB800.2 million and each of Yongying, the Group and Linxin has committed to contribute RMB400 million, RMB399.2 million and RMB1 million to the limited partnership fund, respectively. Meanwhile, the Group and Yongying entered into a shortfall supplement agreement. For more details, please refer to our announcement dated January 22, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking ahead, we will continue to do our best in the death care industry in China, leading the industry revolution and improving services quality by continuous innovation and giving more respect, as well as cultural, environmental, technological, and charitable connotation to death care services. We will adhere to our strategic goals, look for suitable growth opportunities, strive for external development and business chain perfecting, consolidate the highly disintegrated resources of the PRC's death care industry, and boost our market share to cater for more people's need for high quality death care services. We will push for the implementation of all the signed projects. Leveraging our advanced philosophy and expertise in death care business, 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 become an important segment of the Group's business. With much effort to promoting pre-need business with the pre-need contract business as the core 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 and the scale of professional design business, and foster the integration with the internet to improve service contents and accessibility. Last but not least, while promote growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business at 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), aged 61, 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 21 years of experience in the death care services industry in the PRC and has served the Group for 21 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 12th Chinese People's Political Consultative Conference, Shanghai. Currently, Mr. Bai is the thirteenth vice president of the Shanghai General Chamber of Commerce, the vice president of the Hong Kong China Chamber of Commerce, the executive chairman of the Hong Kong-Mainland International Investment Society, an executive council member of China Charity Federation and an executive council member 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 54, is the vice-chairman and executive Director. Mr. Tan is responsible for the overall strategic planning and business development of the Group. Mr. Tan was a director of Shanghai Fu Shou Yuan from December 2006 to December 2017, a director of Hefei Dashushan Co (合肥大蜀山) from December 2006 to February 2014 and the vice chairman of Chongqing FSY Group from May 2011 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 66, 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 25 years of experience in the death care services industry in the PRC and has served the Group for more than 25 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.

Mr. Wang has been an independent non-executive director of Pacific Millennium Packaging Group Corporation (SEHK stock code: 1820), since December 2018.

NON-EXECUTIVE DIRECTORS

Mr. Lu Hesheng (陸鶴生), aged 69, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 23 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 60, 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

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 49, has over 22 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 72, 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 67, 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 49, is an independent non-executive Director of the Company. Mr. Ho has over 20 years of working experience in private equity investment and finance and is currently the 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 the managing director and head of China growth and expansion capital of CLSA Capital Partners from August 1997 to October 2009. Mr. Ho was the non-executive director of SCUD Group Limited (SEHK stock code: 1399) from December 2006 to October 2009) and Shanghai Tonva Petrochemical Co., Ltd. (SEHK stock code: 1103, previous stock code: 8251, currently known as Shanghai Dasheng Agriculture Finance Technology Co., Ltd) from September 2008 to October 2009, both being companies listed on the Main Board of the Stock Exchange. He was the independent director of Shenzhen Forms Syntron Information Co. Ltd (stock code: 300468.SZ), a company listed on the ChiNext of Shenzhen Stock Exchange, from February 2012 to February 2018).

Mr. Ho has been an independent non-executive director of Fantasia Holdings Group Co., Limited (SEHK stock code: 1777), since October 2009; an independent non-executive director of CIMC-TianDa Holdings Company Limited (SEHK stock code: 0445) since July 2015; an independent non-executive director of Momentum Financial Holdings Limited (SEHK stock code: 1152), since November 2016; an independent non-executive director of Magnus Concordia Group Limited (SEHK stock code: 1172) since January 2018; and an independent non-executive director of Wanjia Group Holdings Limited (SEHK stock code: 401) since February 2018. All of the companies mentioned above are listed on the Main Board of the Hong Kong Stock Exchange.

Moreover, Mr. Ho has been a director of Shenzhen Daxiang Space Construction Co., Ltd. (stock code: 836604), a company listed on the National Equities Exchange and Quotations, since September 2015.

Mr. Ho was awarded an Executive Master of Business Administration degree from Tsinghua University and a master's degree in finance from the London Business School. He is also a Chartered Financial Analyst.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Wu Jianwei (吳建偉), aged 63, 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, from July 2001 to June 2017. 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 assistant general editor and 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 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 February 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 70, 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 45 years of experience in the funeral service industry and has been in service with our Group for about 24 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 oral services, as a deputy general manager. He was the general manager of Shimazaki Co., Ltd. (日本島崎株式會社) from 1993 to 1995. Mr. Ge has been the chairman of the Technology and Cultural Committee of the China Funeral Association since 2012. Mr. Ge graduated with a diploma in politics from the Shanghai Normal University in July 1986. Mr. Ge completed the China CEO Management Innovation Executive Program organized by Shanghai Jiao Tong University in January 2005 and the continuous education courses organized by Tsinghua University in January 2008.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Yi Hua (伊華), aged 51, 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 23 years of experience in the funeral service industry in the PRC and has been in service with our Group for nearly 23 years. Prior to joining our Group, she was the manager of the public relations department of Hong Kong Tianhe Clothing Company Limited (香港天和製衣有限公司) from 1995 to 1996. From 1993 to 1995, Ms. Yi served as the head of the marketing department of Hollywood Real Estate (好萊塢房地產). She was an administrative assistant in the Shanghai Office of American Asia Pacific International Group (美國亞太國際集團上海辦事處) between 1990 and 1993. Before that, she worked at the Shanghai Tin Material Factory (上海鉛錫材料廠) as a secretary of the management office from 1988 to 1990. She is also the director 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. She has been awarded as March 8 red flag bearer (a honour title for woman who have extraordinary achievements and outstanding contributions on various fronts of socialist construction) of Shanghai for the year 2017/2018. Ms. Yi had also been awarded 16 domestic and international planning awards during her 23 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 44, is our chief financial officer. He has 21 years of experience in financial management and is also a senior accountant, senior economist, Chartered Global Management Accountant (CGMA), Fellow Chartered Management Accountant (FCMA) and Fellow of CPA Australia (FCPA). 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

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 of the PRC, in March 2015.

Mr. Zhao Yu (趙宇), aged 43, 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 pre-need 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 13 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.

Ms. Hu Yi (胡軼), aged 34, is our company secretary. Ms. Hu has joined the Company since 2014 as the representative of Hong Kong office and manager of board secretary office. She is mainly responsible for investor relationships and overlooking the Group's compliance matters. Prior to joining the Company, Ms. Hu worked in BlackBerry Hong Kong Ltd as Project Manager from 2010 to 2013. Ms. Hu graduated from Shanghai Jiao Tong University with a bachelor degree in English (Specialized in Finance and Business) in 2008. Ms. Hu obtained a master degree in China Studies from The Chinese University of Hong Kong in 2010 and a master degree in Corporate Governance from The Open University of Hong Kong in 2017. Ms. Hu is an associate member of the Hong Kong Institute of Chartered Secretaries.

DIRECTORS' REPORT

The Board presents the directors' report together with the audited consolidated financial statements of the Group for the year ended December 31, 2018.

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 for cemeteries and funeral parlours, manufacturing of cremation devices and sales and after-sales service of cremation devices. 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, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 65 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2014 and 2018 is set out on page 188 in the section "Financial Summary" of this Annual Report.

BUSINESS REVIEW

During the year ended December 31, 2018, the Group realized the sale of 20,912 tombs and provided funeral services to 36,491 customers and recorded total revenue of RMB1,651.3 million, made a net profit totalling RMB615.6 million, and net profit attributable to our shareholders of RMB488.4 million.

As at December 31, 2018, we owned up to 20 cemeteries in operation, and were operating up to 22 funeral facilities throughout the PRC. Our business coverage has expanded to thirty-plus cities across 15 provinces, autonomous regions 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.

DIRECTORS' REPORT

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

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

In February 2018, we signed an agreement to acquire additional 20% equity interest in Guanlingshan Cultural Cemetery, one of our non-wholly owned subsidiaries, at a consideration of RMB120.0 million. Such transaction was completed in March 2018. Upon completion of the transaction, our equity interest in Guanlingshan Cultural Cemetery increased to 90%.

In May 2018, we completed a transaction to acquire 100% equity interest in Chaoyang Longshan Cemetery (朝陽龍山公墓) at a consideration of RMB28.6 million and any taxes incurred during the transaction. Chaoyang Longshan Cemetery mainly provides burial services in Chaoyang City of Liaoning Province.

In May 2018, we signed an agreement in which we shall acquire 100% of equity interest of Helinge'er Anyou Cemetery by phases at a total consideration of RMB108 million and any taxes incurred during the transaction. The acquisition was completed in August 2018. Helinge'er Anyou Cemetery mainly provides burial services in the Hohhot City of the Inner Mongolia Autonomous Region.

In May 2018, we acquired 80% equity interest in Guizhou Tianyuanshan (貴州天圓山) at a consideration of RMB41.8 million. We will further contribute additional capital of RMB30.2 million into Guizhou Tianyuanshan to fund its capital expenditure. Guizhou Tianyuanshan holds the only permission from the local government to build and operate a funeral parlour and cemetery in Zheng'an County, Zunyi City of Guizhou Province, under the "BOT" model. The authorized operation period is 40 years starting from June 30, 2017.

In June 2018, we acquired an additional 25% equity interest in Wuyuan Wanshoushan Cemetery (婺源縣萬壽山陵園), one of our non- wholly owned subsidiaries at a consideration of RMB4.5 million through an auction. The acquisition was completed in August 2018.

In July 2018, we made a capital injection of RMB29.0 million to a cemetery in Changchun City of Jilin Province to acquire its 10% equity interest. It mainly provides burial services in Changchun City of Jilin Province.

In December 2018, we signed an agreement in which we shall acquire 80% of equity interest of Hubei Tianxian Cemetery (湖北省天仙墓園) at a total consideration of RMB40.0 million. Hubei Tianxian Cemetery mainly provides burial services in the Xiaotao City and Tianmen County of Hubei Province. The acquisition was completed in January 2019.

Events occurred since the end of the financial year

On January 22, 2019, a wholly-owned subsidiary of the Group, entered into the Limited Partnership Agreement with Yongying and Linxin in respect of the establishment of a funeral and cemetery buyout fund and the subscription of interest therein. Pursuant to the Limited Partnership Agreement, the total capital commitment to fund of the Limited Partnership is RMB800.2 million and each of Yongying, the Group and Linxin has committed to contribute RMB400 million, RMB399.2 million and RMB1 million to the Limited Partnership, respectively. Meanwhile, the Group and Yongying entered into the Shortfall Supplement Agreement.

We considers that by investing in funeral and cemetery buyout fund, (i) the Company shall possess the right of first refusal for the investment projects of the buyout fund, which can provide a high-quality project reserve in a planned way for the Group's expansion; (ii) the Company can further explore potential investment opportunities for funeral business, expand the Company's existing business portfolio, diversify the Company's income sources and generate additional returns for the Shareholders; (iii) the Company's financing channels can be further expanded and the Company's financing ability can be enhanced, providing a fund arrangement with market competitiveness for the long-term stable development of the Company; and (iv) the Company's funeral and cemetery services quality and the compliance level of the industry can be enhanced, which shall boost a healthy development of the traditional funeral and cemetery industry.

Future development

For more than four 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. The sixteen ministries including the Ministry of Civil Affairs have recently promulgated the "Guiding Opinion on further promoting the funeral and burial reform and encouraging the development of the funeral and burial industry", which further underlines the advancing of separation of government functions from enterprise management and supervision and the deepening of marketization reform. We will seize the opportunities arising from market reforms to increase its efforts in promoting strategic expansion through various methods of cooperation including merger and acquisition.

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.

In the future, we will continue to maintain the steady development of the core burial business and deep plough the funeral service sector, further increase the sales force of environmentally friendly cremators, in addition to explore and innovate as well as optimize the product mix.

Looking forward, the Group will continue to focus on core business as well as explore innovation and new expansion in order to continuously lead the virtuous development of the industry with more humanism and environmental friendliness.

Environmental policies and performance

The Group has always adhered to the sustainable development concept of "transforming cemeteries into parks, farewells into beautiful moments, treatment into enshrinement and darkness into splendor. The Group actively guides the society to have a deep thought on the new topic about "death education" and proposes the life philosophy "learn farewell" accordingly, which has promoted the development trend of the times.

During the Year, the environmental, social and governance team of the Group reviewed and discussed its working results and future work focus in relation to sustainable development and required branches to include various indicators in relation to energy conservation and environmental protection in the scope of quarterly operation information reporting to promote the achievement of energy conservation and emission reduction objective. In addition, during the reporting period, the Group implemented the Administrative Measures on Suppliers (《供應商管理辦法》) and the Administrative Measures on the Purchase of Tombstones and Related Products (《墓石及相關產品年度採購管理辦法》) and included the performance of social responsibilities of suppliers in the selection and admission of suppliers of the Group to continuously promote the performance of suppliers on sustainable development while practicing our own sustainable development. Moreover, the team continued to further carried out communication with and investigation and survey into stakeholders to fully understand the advice and expectation of stakeholders including employees, shareholders/investors, customers, government regulatory authorities, partners, communities and media in relation to the Group's sustainable development. The investigation and survey results are used as basis of preparation of our independent sustainability report and important reference for formulation of the Company's sustainable development strategy in the future.

The Group has always put the green concept into all aspects of its operation and carries out regular inspection on the utilization of resources and energy and emission of pollutants of its branches. Meanwhile, the Group has been actively discovering and promoting its experience in energy conservation. The Group has also continuously launched new models of land-saving burial, including the European copper plate burial and the eco-friendly forest burial, which not only introduce modern and fashion elements, but also make full advantage of land resources.

The group has always regarded the staff as the most valuable treasure, respecting and recognizing the hard work of each employee. In strict compliance with national and local laws and regulations, the group gathers talents in an equal, innovative and diversified way, motivates talents by transparent and multi-channel promotion system, empowers talents by professional and systematic training system, constantly improves the welfare of employees and maintains the health and safety of employees. The group will also proactively undertake social responsibilities such as humanities, charity, environmental protection, public welfare and stick to related activities. With the support of the Life-service Academy, the group will actively improve the quality of people's livelihood services, lead the life education and promote the public welfare activities of culture memorial. During the year, the group participated in international communication activities on behalf of the Chinese funeral service industry, as well as acknowledged by a great number of social welfare awards and well recognized by all social sectors.

Please refer to the 2018 Sustainability Report of the Group for more details of the Group's sustainability policy and performance.

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 also depends on the support from key stakeholders which comprise our employees, customers, suppliers, regulators and shareholders.

Employees

Our success depends on our qualified and skilled employees and we believe employees are the most valuable resource and wealth of the group. Our group adheres to the value of people orientation and our goal is to constantly maximize our employee value and enterprise value. Therefore, we developed a set of internal training programs and provide a wide range of education and development opportunities for our employees. The Group also provides competitive remuneration package to attract and motivate the employees. Performance appraisal and interview is held for review the remuneration package of employees and makes necessary adjustments to conform to the market standard. As at December 31, 2018, we had 2,235 full-time employees (December 31, 2017: 1,836).

Customers

The Group attaches extremely great importance to customer services and is committed to providing quality services and products to our customers while maintaining long-term business growth. We conduct monthly call-back interviews for customer satisfactory survey and made summary and analysis of customer opinions and provides feedback to our customer after internal communication. We recognize the important role of customers in our success and will continues to enhance our quality of our services and products.

Suppliers

Our suppliers mainly include tombstone producers, landscaping companies and so forth. Our Group has a complete set of purchasing system with regard to suppliers, in order to safeguard the interests of our Group as well as give an impetus to suppliers. Evaluation is conducted on suppliers to define the service scope and responsible person of each suppliers, and guarantees the product and service quality and interests of suppliers. Our Group established our "Environment and Labor System for Suppliers" in 2016 and has implemented in 2017, in order to improve the screening standard on suppliers and join hands with them for common growth.

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.

DIRECTORS' REPORT

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 2018 sustainability report of the Company.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$3.72 cents per Share for the year ended December 31, 2018 (2017: HK$3.24 cents per Share). The final dividend will be payable on June 10, 2019 subject to the approval of the Shareholders at the AGM. Subject to the Companies Law, through a general meeting we may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve of our Company lawfully available for distribution including share premium.

We also intended to distribute to our shareholders no less than 25% of our net distributable profit since the year ended December 31, 2014 and for each fiscal year thereafter. However, we will re-evaluate our dividend policy annually.

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 15, 2019 to Monday, May 20, 2019, 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 14, 2019.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Tuesday, May 28, 2019 to Thursday, May 30, 2019 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 Monday, May 27, 2019.

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, 2018, purchases from the Group's five largest suppliers accounted for 30.0% (2017: 33.9%) of the Group's total purchases and purchases from our single largest supplier accounted for 9.2% (2017: 9.2%) of the Group's total purchases.

During the year ended December 31, 2018, 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, 2018 are set out in Note 14 to the audited consolidated financial statements.

SHARE CAPITAL

During the year ended December 31, 2018, 50,535,000 ordinary shares were issued by exercise of share options. The total consideration received by the Company for the above issue is HK$192,841,852. Details of the movements in the Company's share capital during the year ended December 31, 2018 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, 2018 are set out in the consolidated statement of changes in equity on page 68 of this Annual Report and Notes 33 and 45 to the audited consolidated financial statements respectively.

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, 2018, 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, 2018.

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.

DIRECTORS' REPORT

CHARITABLE DONATIONS

During the year ended December 31, 2018, the Group made approximately RMB3.3 million charitable and other donations.

DIRECTORS

The Directors during the year ended December 31, 2018 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. Ma Xiang
Mr. Lu Hesheng
Mr. Huang James Chih-cheng

Independent Non-executive Directors

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

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

In accordance with Article 108 of the Articles of Association, Mr. Lu Hesheng, Mr. Huang James Chih-cheng, Mr. Chen Qunlin, 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 for a term of three years, each of such service agreements may be terminated by not less than one month's notice in writing served by either party on the other.

Each of the non-executive Directors and independent non-executive Directors was appointed to the Board pursuant to the respective letters of appointment for a term of three years. 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, 2018 or at any time during the year ended December 31, 2018. 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.

FSG Holding has provided an annual confirmation in respect of the compliance with non-competition undertaking (the "Undertaking") given by it.

The independent non-executive Directors have also reviewed the compliance by FSG Holding with the Undertaking during the year ended December 31, 2018. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by FSG Holding of the Undertaking given by 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, 2018.

DIRECTORS' REPORT

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, 2018 are set out in Note 10 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 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, 2018.

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 8.98% 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.

At the annual general meeting of the Company held on May 15, 2017, an ordinary resolution was passed, pursuant to which the scheme mandate limit under the Share Option Scheme approved on 9 December 2013 has been refreshed, allowing the Company to grant share options entitling holders thereof to subscribe for up to 210,000,000 Shares, representing approximately but not exceeding 10% of the issued share capital of the Company as at the date of passing the above resolution.

As at December 31, 2018, the total number of Shares available for issue upon exercise of the options granted under the Share Option Scheme was 108,642,000 Shares (representing 4.88% 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, 2018:

Name of Grantees	Date of grant	Exercise price per Share (HK$)	Closing price per Share immediately before the date of grant (HK$)	Options balance outstanding as at January 1, 2018	Options granted during the year ended December 31, 2018	Options exercised during the year ended December 31, 2018	Options lapsed during the year ended December 31, 2018	Options cancelled during the year ended December 31, 2018	Options outstanding as at December 31, 2018	Exercisable period
Directors										
Bai Xiaojiang	March 19, 2015	3.126	3.16	1,500,000	–	–	–	–	1,500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	–	–	–	–	2,000,000	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	–	–	–	–	1,000,000	April 27, 2018 to April 26, 2020
	March 20, 2017	4.850	4.82	5,000,000	–	–	–	–	5,000,000	March 20, 2019 to March 19, 2021
Tan Leon Li-an	August 5, 2014	4.14	4.01	400,000	–	400,000[1]	–	–	–	August 5, 2016 to August 4, 2024
	March 24, 2016	5.824	5.54	500,000	–	–	–	–	500,000	March 24, 2018 to March 23, 2020
Wang Jisheng	March 19, 2015	3.126	3.16	1,500,000	–	–	–	–	1,500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	2,000,000	–	–	–	–	2,000,000	March 24, 2018 to March 23, 2020
	April 27, 2016	5.466	5.57	1,000,000	–	–	–	–	1,000,000	April 27, 2018 to April 26, 2020
	March 20, 2017	4.850	4.82	5,000,000	–	–	–	–	5,000,000	March 20, 2019 to March 19, 2021
Ma Xiang	March 24, 2016	5.824	5.54	500,000	–	–	–	–	500,000	March 24, 2018 to March 23, 2020
Lu Hesheng	August 5, 2014	4.14	4.01	400,000	–	400,000[2]	–	–	–	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	500,000	–	–	–	–	500,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	500,000	–	–	–	–	500,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	500,000	–	–	–	–	500,000	March 20, 2019 to March 19, 2021
Huang James Chih-cheng	August 5, 2014	4.14	4.01	400,000	–	400,000[3]	–	–	–	August 5, 2016 to August 4, 2024
Chen Qunlin	August 5, 2014	4.14	4.01	200,000	–	200,000[2]	–	–	–	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	–	–	–	–	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	–	–	–	–	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	–	–	–	–	300,000	March 20, 2019 to March 19, 2021
Luo Zhuping	August 5, 2014	4.14	4.01	200,000	–	200,000[2]	–	–	–	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	–	–	–	–	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	–	–	–	–	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	–	–	–	–	300,000	March 20, 2019 to March 19, 2021
Ho Man	August 5, 2014	4.14	4.01	200,000	–	200,000[2]	–	–	–	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	–	–	–	–	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	–	–	–	–	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	–	–	–	–	300,000	March 20, 2019 to March 19, 2021
Wu Jianwei	August 5, 2014	4.14	4.01	200,000	–	200,000[2]	–	–	–	August 5, 2016 to August 4, 2024
	March 19, 2015	3.126	3.16	300,000	–	–	–	–	300,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	300,000	–	–	–	–	300,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	300,000	–	–	–	–	300,000	March 20, 2019 to March 19, 2021
Other employees of the Group (in aggregate)	August 5, 2014	4.14	4.01	16,879,000	–	16,804,000[4]	75,000	–	–	August 5, 2016 to August 4, 2018
	March 19, 2015	3.126	3.16	35,673,000	–	25,874,000[5]	–	–	9,799,000	March 19, 2017 to March 18, 2019
	March 24, 2016	5.824	5.54	41,300,000	–	5,857,000[6]	–	–	35,443,000	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	38,300,000	–	–	–	–	38,300,000	March 20, 2019 to March 19, 2021
Total				159,252,000	–	50,535,000	75,000	–	108,642,000	

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$8.95.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$8.74.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$8.37.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$7.67.

Note 5: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$7.82

Note 6: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$8.18

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended December 31, 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at December 31, 2018, 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 Interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. BAI Xiaojiang	Beneficiary of a trust (Note 1)	Long position	96,600,000	4.36%
	Beneficial owner	Long position	6,953,452	0.31%
Mr. WANG Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.36%
	Beneficial owner	Long position	6,953,452	0.31%
Mr. TAN Leon Li-an	Beneficial owner	Long position	400,000	0.02%
Mr. LU Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.25%
Mr. Huang James Chih-cheng	Beneficial owner	Long position	400,000	0.02%

Notes:

1. Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.36% of the issued share capital of the Company. These shares are held indirectly under a trust, UBS Trustees (BVI) Limited, of which Mr. Bai Xiaojiang is a beneficiary.

2. Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field, which in turn is interested in approximately 4.36% of the issued share capital of the Company. These shares are held indirectly under a trust, UBS Trustees (BVI) Limited, of which Mr. Wang Jisheng is a beneficiary.

3. Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire, which in turn is interested in approximately 1.25% 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, details of which are set out in "Share Option Scheme" above.

Save as disclosed above, as at year ended December 31, 2018, 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, 2018, 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 as at this Annual Report (%)
FSG Holding	Beneficial owner	Long position	388,318,000	17.53%
Mr. Tan Tize Shune (also know as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	388,318,000	17.53%
Perfect Score	Beneficial owner	Long position	483,000,000	21.81%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	21.81%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	21.81%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	21.81%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	21.81%
UBS Trustees (BVI) Limited	Trustee	Long position	193,200,000	8.72%
Double Riches	Beneficial owner	Long position	119,445,000	5.39%
Ge Qiansong	Interest in a controlled corporation (Note 6)	Long position	119,445,000	5.39%
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	6.84%
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	6.84%

* 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 17.53% 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 21.81% 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 21.81% 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 21.81% 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 21.81% 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 5.39% 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 6.84% 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, 2018, 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" above, at no time during the year ended December 31, 2018 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 40 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, 2018.

DIRECTORS' REPORT

CONNECTED TRANSACTION

(1) 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, 2018, the loan remaining outstanding amounted to approximately RMB32.0 million. The interest rate is approximately 5.655% 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.

(2) Chongqing Guolong Agricultural Science and Technology Development Co. Ltd. (重慶國隆農業科技發展有限公司) ("Chongqing Guolong") and Xiyuan Fu Shou Yuan entered into a loan agreement on November 28, 2017, pursuant to which Chongqing Guolong provided a shareholder loan to Xiyuan Fu Shou Yuan. As at December 31, 2018, the loan remaining outstanding amounted to approximately RMB27.0 million. The interest rate is approximately 4.35% per annum.

The reason for entering into the shareholder's loan with Chongqing Guolong (the "Loan") was to fund the cemetery development. In considering the funding requirement, Chongqing Guolong, a shareholder of Xiyuan Fu Shou Yuan, and Shanghai Fu Shou Yuan, one of our wholly-owned subsidiaries, provided their funding to Xiyuan Fu Shou Yuan by way of the shareholder's loan based on the respective shareholding percentages in addition to the registered capital.

Chongqing Guolong is a connected person of the Company as it is a substantial shareholder of Xiyuan Fu Shou Yuan and it owns 49% equity interest in Xiyuan 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 Chongqing Guolong 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.

(3) On February 12, 2018, one of the existing shareholders of Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd., Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership) ("Chongqing Fuding") and the two other existing shareholders, Tieling Puyuan Cultural Enterprise Co., Ltd. ("Tieling Puyuan") and Shenyang Rongyuan Investment Co., Ltd. ("Shenyang Rongyuan") entered into an agreement, pursuant to which the Chongqing Fuding will acquire a 20% equity interest in aggregate in Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd. for a cash sum of RMB120 million from Tieling Puyuan and Shenyang Rongyuan. Upon the completion of the equity interest transfers, Chongqing Fuding and Shenyang Rongyuan will hold 90% and 10% equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd., respectively and Tieling Puyuan will cease to be a shareholder of Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd..

Tieling Puyuan and Shenyang Rongyuan directly holds 30% of the equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd., hence they are connected person of the Company by virtue of being a substantial shareholder of a subsidiary of the Group. Therefore, the above acquisition constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Through the acquisition, the Group will enhance its equity interest in Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd., which will in turn be translated into more efficient control over the operations of Liaoning Guanlingshan Cultural Landscape Cemetery Co., Ltd.. The Board considers that the acquisition is in the best interests of the Company and the Shareholders as a whole.

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, 2018.

AUDITOR

The financial statements of the Group for the year ended December 31, 2018 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 15, 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2018.

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, 2018.

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, 2018.

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, 2018.

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
Mr. Lu Hesheng
Mr. Huang James Chih-cheng

Independent Non-executive Directors

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

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

Throughout the year ended December 31, 2018, 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 General Meetings

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

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, 2018. The Board held 8 meetings.

The attendance records of the individual Directors at the Board, Audit Committee, Nomination Committee, Remuneration Committee, Compliance Committee and general meeting for the year ended December 31, 2018 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	8/8	–	1/1	–	–	1/1
Mr. Tan Leon Li-an	5/8	–	–	1/1	–	1/1
Mr. Wang Jisheng	8/8	–	1/1	–	–	1/1
Non-executive Directors						
Mr. Ma Xiang	8/8	–	–	–	–	1/1
Mr. Lu Hesheng	8/8	–	–	–	–	1/1
Mr. Huang James Chih-cheng	8/8	2/2	–	–	–	1/1
Independent non-executive Directors						
Mr. Chen Qunlin	8/8	–	1/1	1/1	2/2	1/1
Mr. Luo Zhuping	8/8	2/2	1/1	1/1	2/2	1/1
Mr. Ho Man	8/8	2/2	1/1	–	2/2	1/1
Ms. Wu Jianwei	8/8	–	–	–	2/2	1/1

Except for the annual general meeting, the Company did not held any other general meeting during the year ended December 31, 2018.

Appointment, Re-election and Removal of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years.

Each of the non-executive Directors and independent non-executive Directors was appointed to the Board pursuant to the respective letters of appointment for a term of three years.

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.

CORPORATE GOVERNANCE 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, 2018, 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. Tan Leon Li-an, Mr. Wang Jisheng, Mr. Ma Xiang, Mr. Lu Hesheng, Mr. Huang James Chih-cheng, Mr. Luo Zhuping, Mr. Ho Man and Ms. Wu Jianwei have attended a training regarding Directors' duties, obligation of listed company, reporting obligation of information disclosure and environmental, social and governance.

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:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- 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.

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 C.3 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, 2018, 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 B.1 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, 2018, the Remuneration Committee held 1 meeting. It had reviewed 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, 2018, the Nomination Committee held 1 meeting. 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, 2018, 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.

NOMINATION POLICY AND 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 a nomination policy and a 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.

CORPORATE GOVERNANCE REPORT

After receiving recommendations regarding the appointment of new directors or re-appointment of retiring directors, the chairman of the Nomination Committee will convene a Nomination Committee meeting to perform sufficient due diligence. Upon the review by and approval from the Nomination Committee, the committee will convene a Board meeting where recommendations will be made to the Board for consideration and approval. As considered and approved by the Board, the proposed directors will be subject to re-election at a general meeting.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Details of the remuneration of the Directors are set out in Note 10 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, 2018 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	1
HK$3,000,001 to HK$3,500,000	2
HK$3,500,001 to HK$4,000,000	1

EXTERNAL AUDITOR'S REMUNERATION

During the year ended December 31, 2018, 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	
	2018	2017
	RMB'000	RMB'000
Services rendered for the Group		
Audit Services	**2,800**	2,500
Interim Results Review	**1,000**	1,000
Other service	**–**	300
Total Fees	**3,800**	3,800

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 matters; 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, 2018, 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, 2018.

COMPANY SECRETARY

The company secretary of the Company is Ms. Hu Yi ("Ms. Hu"). Ms. Hu was appointed as the company secretary of the Company on September 13, 2018 to replace Mr. Tsoi Ka Ho, who was appointed as the company secretary of the Company to replace Mr. Zhang Jingming on May 7, 2018. At present, Ms. Hu is responsible for investor relations, corporate finance and corporate governance of the Group.

Ms. Hu had 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, 2018.

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:

Address: Room 1306, No. 88 North Cao Xi Road North, Shanghai, China
Telephone: (86) 21 54255151 (board secretary office)
Email: ir@fsygroup.com

Constitutional Documents

During the year ended December 31, 2018, there had been no change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS 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 65 to 187, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance 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") issued by the Hong Kong Institute of Certified Public Accountants. 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 — *continued*

Key audit matter	How our audit addressed the key audit matter
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 consolidated financial statements, combined with the judgments involved in management's impairment assessment of goodwill. As disclosed in Note 18 to the consolidated financial statements, as at December 31, 2018, the carrying amount of goodwill amounted to approximately RMB428 million. As set out in Note 5 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 18.	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 the 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 requirements of the relevant accounting standard.

KEY AUDIT MATTERS — *continued*

Key audit matter	How our audit addressed the key audit matter
Provisions for litigation claims	
We identified the provisions for litigation claims against the Group as a key audit matter due to their significance in the context of the 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 RMB54 million as at December 31, 2018. The directors of the Company (the "Directors") are of the view that no provision shall necessarily be made on the litigation claims after taking into account of the opinions of independent legal counsels and the status of the litigations.	Our procedures in relation to the provisions for litigation 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 counsel, including the view 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 consolidated 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 issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the company 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 of the company 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 of the company 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 of the company.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — *continued*

- 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 Mr. Jacky Wong Suk Hung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 15, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	6	**1,651,299**	1,477,208
Operating expenditures			
Staff costs		**(401,192)**	(354,356)
Construction costs		**(70,137)**	(54,091)
Consumed materials and goods		**(117,113)**	(109,148)
Outsourced service costs		**(55,002)**	(54,738)
Marketing and sales channel costs		**(43,876)**	(61,758)
Depreciation and amortization		**(92,730)**	(74,697)
Other general operating expenditures		**(137,717)**	(119,178)
Inventory changes		**(10,638)**	(8,076)
Profit from operations		**722,894**	641,166
Other income, gains and losses	7	**60,172**	58,805
Share of profit of a joint venture		**—**	398
Finance costs	8	**(8,293)**	(15,585)
Profit before taxation	9	**774,773**	684,784
Income tax expense	11	**(159,140)**	(134,611)
Profit and total comprehensive income for the year		**615,633**	550,173
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**488,364**	417,350
Non-controlling interests		**127,269**	132,823
		615,633	550,173
		RMB cents	RMB cents
Earnings per share — Basic	13	**22.2**	19.6
— Diluted	13	**21.9**	19.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property and equipment	14	**545,000**	478,753
Prepaid lease payments	15	**34,072**	20,016
Investment property	16	**6,509**	6,509
Intangible assets	17	**21,643**	17,198
Goodwill	18	**428,021**	360,274
Financial assets at fair value through profit or loss	25	**29,761**	–
Deposits paid for acquisition of land use rights		**19,655**	16,160
Cemetery assets	19	**1,415,849**	1,244,821
Investment in an associate		**750**	–
Restricted deposits	20	**46,852**	38,750
Deferred tax assets	21	**45,377**	38,039
Other long-term assets	22	**25,339**	20,835
		2,618,828	2,241,355
Current assets			
Inventories	23	**448,003**	426,381
Trade and other receivables	24	**51,504**	47,307
Financial assets at fair value through profit or loss	25	**577,420**	–
Time deposits	26	**48,298**	10,000
Bank balances and cash	27	**1,493,651**	1,936,992
		2,618,876	2,420,680
Current liabilities			
Trade and other payables	28	**434,296**	390,895
Deferred income		**–**	22,617
Contract liabilities	30	**35,442**	–
Loans from non-controlling shareholders of subsidiaries	31	**26,950**	10,039
Income tax liabilities		**143,927**	120,544
Borrowings	29	**75,000**	60,500
		715,615	604,595
Net current assets		**1,903,261**	1,816,085
Total assets less current liabilities		**4,522,089**	4,057,440

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred income		—	258,564
Contract liabilities	30	**301,801**	—
Other long-term liabilities		**13,774**	13,593
Loans from non-controlling shareholders of subsidiaries	31	**31,969**	41,525
Borrowings	29	**28,860**	52,520
Deferred tax liabilities	21	**94,802**	86,734
		471,206	452,936
Net assets		**4,050,883**	3,604,504
Capital and reserves			
Share capital	32	**134,920**	131,666
Reserves	33	**3,377,511**	2,886,497
Equity attributable to owners of the Company		**3,512,431**	3,018,163
Non-controlling interests		**538,452**	586,341
Total equity		**4,050,883**	3,604,504

The consolidated financial statements on page 65 to 187 were approved and authorized for issue by the Board of Directors on March 15, 2019 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, 2018

	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, 2017	127,470	1,123,394	84,667	101,633	26,784	74,233	997,999	2,536,180	492,860	3,029,040
Profit and total comprehensive income for the year	–	–	–	–	–	–	417,350	417,350	132,823	550,173
Acquisition of subsidiaries (Note 35)	–	–	–	–	–	–	–	–	48,180	48,180
Dividends recognized as distributions (Note 12)	–	(106,535)	–	–	–	–	–	(106,535)	–	(106,535)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(97,197)	(97,197)
Transfer to statutory surplus reserve	–	–	–	15,228	–	–	(15,228)	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	10,450	10,450
Acquisition of non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(775)	(775)
Exercise of share options	4,196	162,483	–	–	–	(38,049)	–	128,630	–	128,630
Share-based compensation	–	–	–	–	–	42,538	–	42,538	–	42,538
At December 31, 2017	131,666	1,179,342	84,667	116,861	26,784	78,722	1,400,121	3,018,163	586,341	3,604,504
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**488,364**	**488,364**	**127,269**	**615,633**
Acquisition of subsidiaries (Note 35)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,179**	**7,179**
Dividends recognized as distributions (Note 12)	**–**	**(129,666)**	**–**	**–**	**–**	**–**	**–**	**(129,666)**	**–**	**(129,666)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(114,479)**	**(114,479)**
Transfer to statutory surplus reserve	**–**	**–**	**–**	**14,206**	**–**	**–**	**(14,206)**	**–**	**–**	**–**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,600**	**3,600**
Acquisition of non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**(53,044)**	**–**	**–**	**(53,044)**	**(71,458)**	**(124,502)**
Exercise of share options	**3,254**	**183,026**	**–**	**–**	**–**	**(28,214)**	**–**	**158,066**	**–**	**158,066**
Share-based compensation	**–**	**–**	**–**	**–**	**–**	**30,548**	**–**	**30,548**	**–**	**30,548**
At December 31, 2018	**134,920**	**1,232,702**	**84,667**	**131,067**	**(26,260)**	**81,056**	**1,874,279**	**3,512,431**	**538,452**	**4,050,883**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**774,773**	684,784
Adjustments for:		
Finance costs	**8,293**	15,585
Interest income	**(55,228)**	(45,101)
Depreciation of property and equipment	**41,526**	32,134
Amortization of cemetery assets	**46,637**	40,347
Amortization of intangible assets and prepaid lease payment	**4,125**	1,524
Amortization of other long-term assets	**442**	692
Net loss on disposal of property and equipment	**11,121**	78
Share of profit of a joint venture	**–**	(398)
Expense recognized in respect of equity-settled share-based payments	**30,548**	42,538
Operating cash flows before movements in working capital	**862,237**	772,183
Increase in restricted deposits	**(8,102)**	(6,534)
Increase in cemetery assets and inventories	**(105,530)**	(57,618)
Increase in deposits paid for acquisition of land use rights as cemetery assets	**(4,030)**	(10,000)
(Increase) decrease in trade and other receivables	**(5,742)**	6,483
Increase in trade and other payables	**33,086**	40,753
Increase in deferred income/contract liabilities	**47,046**	39,911
Cash generated from operations	**818,965**	785,178
Income taxes paid	**(148,442)**	(137,006)
NET CASH FROM OPERATING ACTIVITIES	**670,523**	648,172
INVESTING ACTIVITIES		
Additions to and deposits paid for property and equipment	**(96,084)**	(111,834)
Purchase of intangible assets	**(7,343)**	(4,185)
Addition to and deposits paid for acquisition of land use rights	**(7,165)**	(6,160)
Payment to prepaid lease payment	**(7,582)**	–
Proceeds on disposal of property and equipment	**2,428**	339
Acquisition of subsidiaries (Note 35)	**(182,178)**	(77,333)
Contract fee prepaid for operating funeral projects	**(8,926)**	–
Repayment of entrusted loans	**1,000**	1,450
Dividends received from a joint venture	**–**	485
Interest received	**54,353**	48,060
Withdrawal of time deposits	**370,218**	293,850
Placement of time deposits	**(408,516)**	(10,000)
Purchase of financial assets at fair value through profit or loss	**(606,420)**	–
Investment to an associate	**(750)**	–
Acquisition of non-controlling interests of subsidiaries	**(124,502)**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(1,021,467)**	134,672

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	**60,000**	32,000
Repayment of borrowings	**(69,160)**	(52,950)
Capital contribution from non-controlling interests	**3,600**	10,450
Loans raised from non-controlling shareholders of subsidiaries	**14,950**	10,039
Interest paid	**(15,708)**	(8,420)
Acquisition of non-controlling interests of a subsidiary	**–**	(775)
Dividends paid to non-controlling interests	**(114,479)**	(97,197)
Dividends paid to owners of the Company	**(129,666)**	(106,535)
Proceeds from exercise of share options	**158,066**	128,630
NET CASH USED IN FINANCING ACTIVITIES	**(92,397)**	(84,758)
NET (DECREASE) INCREASE CASH AND CASH EQUIVALENTS	**(443,341)**	698,086
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,936,992**	1,238,906
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,493,651**	1,936,992

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 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. CHANGE OF PRESENTATION OF STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

From the year ended December 31, 2018, the Group presents its operating expenditures in the consolidated statement of profit or loss and other comprehensive income by nature instead of by function in the previous period. In the opinions of the directors of the Company:

a. To present the expenditures by nature could better depict the characteristics of the burial and funeral industry that the Group engages;

b. Expenditure items by nature are more transparent, which is beneficial for investors to understand the business of the Group.

The financial results (for example: revenue, profit and total comprehensive income) of the Group is not affected by the change of presentation.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

Except as described below, the application of the new and 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.

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Burial services
- Funeral services
- Other services

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 6 and 4 respectively.

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

New and amendments to IFRSs that are mandatorily effective for the current year — *continued*

3.1 IFRS 15 Revenue from Contracts with Customers — continued

Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 have no material impact on retained profits at January 1, 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at December 31, 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at January 1, 2018 RMB'000
Current Liabilities				
Deferred income	(a)	22,617	(22,617)	–
Trade and other payables	(b)	390,895	(4,045)	386,850
Contract liabilities		–	26,662	26,662
Non-current Liabilities				
Deferred income	(a)	258,564	(258,564)	–
Contract liabilities		–	258,564	258,564

(a) As at January 1, 2018, deferred income of RMB281,181,000 were reclassified to contract liabilities.

(b) As at January 1, 2018, advances from customers of RMB4,045,000 in respect of sales of pre-need contracts previously included in trade and other payables were reclassified to contract liabilities.

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

New and amendments to IFRSs that are mandatorily effective for the current year — *continued*

3.1 IFRS 15 Revenue from Contracts with Customers — continued

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current Liabilities				
Deferred income	(a)	–	24,695	24,695
Trade and other payables	(b)	434,296	10,747	445,043
Contract liabilities		35,442	(35,442)	–
Non-current Liabilities				
Deferred income	(a)	–	301,801	301,801
Contract liabilities		301,801	(301,801)	–

(a) As at December 31, 2018, contract liabilities of RMB326,496,000 would have been reclassified to deferred income if IFRS 15 had not been applied.

(b) As at December 31, 2018, contract liabilities of RMB10,747,000 in respect of sales of pre-need contracts would have been reclassified to trade and other payables if IFRS 15 had not been applied.

3.2 IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 4.

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

New and amendments to IFRSs that are mandatorily effective for the current year — *continued*

3.2 IFRS 9 Financial Instruments and the related amendments — continued

Summary of effects arising from initial application of IFRS 9

(a) The classification and measurement of financial assets and financial liabilities

The directors of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. There is no material impact to the classification as at January 1, 2018.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

ECL for other financial assets at amortised cost, including bank balances, time deposits, restricted deposits and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. There is no material impact to the impairment under ECL model as at January 1, 2018.

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
5 Effective for annual periods beginning on or after January 1, 2020

Except for the new IFRS mentioned below, the directors of the Company anticipate that the application of the other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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 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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases 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, 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.

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

New and amendments to IFRSs in issue but not yet effective — *continued*

IFRS 16 Leases — continued

For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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.

Other than certain requirements which are also applicable to lessor, 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 December 31, 2018, the Group has non-cancellable operating lease commitments of RMB105.33 million as disclosed in Note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of RMB3,632,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

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

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 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that an initial recognition the results of the valuation technique equals the transaction price.

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.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

The principle accounting policies are set out below.

Basis of consolidation

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

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

The Group 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 Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group 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.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Basis of consolidation — *continued*

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Business combinations

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Business combinations — *continued*

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes 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. 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 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 recognised 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 or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9/IAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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 retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy 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 (or group of cash-generating units) that is 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 or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments in associates and joint ventures — *continued*

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. 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 an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in associates and joint ventures – *continued*

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 recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9/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. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or 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) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or 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 an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3)

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) — *continued*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) — *continued*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transactions price to each performance obligations on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group experts to be entitled in exchange for transferring the promised goods or services to customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) — ***continued***

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its burial, funeral and other services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Revenue recognition (prior to January 1, 2018)

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue recognition (prior to January 1, 2018) — *continued*

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-proportion 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Foreign currencies

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payments

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 of the equity-settled share-based payments determined at the grant-date without taking into consideration all non-market vesting conditions 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 option reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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 option reserve.

When the share options are exercised, the amount previously recognized in share option 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 option 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/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Taxation — *continued*

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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and a joint venture 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 the 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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sales, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sales.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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, if any.

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 the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 profit or loss in the period in which the property is derecognized.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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 acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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.

Impairment on 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 with finite useful lives 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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

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

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 (or a cash-generating unit) 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 immediately in profit or loss.

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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 ("FVTPL") are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) — continued

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) — continued

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, time deposits, bank balances and cash and restricted deposits). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) — continued

(i) Significant increase in credit risk — *continued*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of investment grade as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) — continued

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) — continued

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments;
- Past-due status; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

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.

(i) 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, of which interest income is included in other income, gains and losses.

(ii) 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 and other receivables, restricted deposits, time deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Impairment of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is an 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 reorganisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial assets — continued

Impairment of financial assets (before application of IFRS 9 on January 1, 2018) — continued

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 financial asset's 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 trade and 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.

Derecognition of financial assets

The Group derecognises 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial instruments — *continued*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments 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.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities including trade and other payables, loan from non-controlling shareholders of subsidiaries and borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, borrowings and loans from non-controlling shareholders of subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the 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 may arise. As at December 31, 2018, the carrying amounts of goodwill are approximately RMB428,021,000 (2017: RMB360,274,000). Details of recoverable amount calculation are disclosed in Note 18.

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, 2018 are disclosed in Note 46. As at December 31, 2018, 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 legal counsels and the status of the litigations.

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, 2018, the carrying amounts of property and equipment are approximately RMB545,000,000 (2017: RMB478,753,000). No impairment indicators on property and equipment were identified during the year ended December 31, 2018 and 2017. Details of movement are disclosed in Note 14. As at December 31, 2018, the carrying amounts of intangible assets are approximately RMB21,643,000 (2017: RMB17,198,000). No impairment was recorded for the intangible assets during the year ended December 31, 2018 and 2017. Details of movement are disclosed in Note 17.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Estimated cemetery maintenance income

The Group estimates cemetery maintenance income to be separated from the sale of burial plots each period. Deferred cemetery maintenance income is determined based on the expected cost of maintaining the cemetery for the useful life of the cemetery, which includes labour cost, general and administrative expenses, and cost of maintenance of landscaping, offset by the expected cemetery maintenance fee to be received from customers. The Group also considered factors such as increase in labour cost in future periods when estimating cemetery maintenance expense. Cemetery maintenance expense is marked up at a reasonable profit and is allocated to individual transaction to arrive at the amount of deferred cemetery maintenance income. Total deferred cemetery maintenance income is reviewed at the end of each reporting 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, 2018, the carrying amounts of deferred cemetery maintenance income are approximately RMB326,496,000 (2017: RMB281,181,000), as disclosed in Note 30.

Estimated cost on renewing land use rights

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 into 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 rights. 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 sales and services. 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, 2018 and 2017.

6. REVENUE AND SEGMENT INFORMATION

A. For the year ended December 31, 2018

(i) Disaggregation of revenue from contracts with customers

	2018 RMB'000
Timing of revenue recognition	
At point in time	1,605,711
Over time	45,588
Total	1,651,299

(ii) Performance obligations for contracts with customers

Sales of burial plots with maintenance services

The Group sells burial plots and provide cemetery maintenance services.

Revenue from the sale of burial plots is recognized when the control of burial plots is transferred to the customer, being when the right to use of burial plots has passed. Payment of the transaction price is due immediately at the point the customer purchases the burial plots.

The cemetery maintenance service is considered to be a distinct service. Transaction price is allocated between sales of products and the maintenance services. 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. Revenue relating to the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight-line basis over the period of service.

Sales of funeral services

The Group offers services of planning funeral arrangement and interment, organizing and hosting of the funeral. Revenue from funeral services is recognized when services are provided. Except for sales of pre-need contracts and services offered to local funeral administration authority, payment of the transaction price is due immediately at the point the funeral services are provided. For services offered to local funeral administration authority, the credit term is 0–90 days upon service provided.

Sales of pre-need contracts is sales of funeral services based on a contract prior to death occurring. The payment is due when the pre-need contract is signed, this will give rise to contract liabilities at the start of a contract, until the revenue recognised when the funeral service is offered.

6. REVENUE AND SEGMENT INFORMATION — *continued*

A. For the year ended December 31, 2018 — *continued*

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2018 and the expected timing of recognising revenue are as follows:

	Cemetery Maintenance Services RMB'000	**Sales of Pre-need Contracts** RMB'000
Within one year	24,695	10,747
More than one year	301,801	—
Total	326,496	10,747

B. Segment information

Information reported to the Group's Chief Executive Officer, 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, organizing and hosting of the funeral.
- Others — including auxiliary services such as provision of landscape and garden design services; and production and sale of cremation machines and the related maintenance services.

6. REVENUE AND SEGMENT INFORMATION – *continued*

Segment revenues and results

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
For the year ended December 31, 2018:						
External sales	**1,427,123**	**197,688**	**26,488**	**1,651,299**	**–**	**1,651,299**
Inter-segment sales	**–**	**–**	**16,337**	**16,337**	**(16,337)**	**–**
Total	**1,427,123**	**197,688**	**42,825**	**1,667,636**	**(16,337)**	**1,651,299**
Segment profit (loss)	**712,773**	**19,858**	**(9,098)**	**723,533**	**(639)**	**722,894**
Other income, gains and losses						**60,172**
Finance costs						**(8,293)**
Profit before taxation						**774,773**

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
For the year ended December 31, 2017:						
External sales	1,300,045	157,855	19,308	1,477,208	–	1,477,208
Inter-segment sales	–	–	17,830	17,830	(17,830)	–
Total	1,300,045	157,855	37,138	1,495,038	(17,830)	1,477,208
Segment profit (loss)	620,347	27,419	(1,988)	645,778	(4,612)	641,166
Other income, gains and losses						58,805
Share of profit of a joint venture						398
Finance costs						(15,585)
Profit before taxation						684,784

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are similar to those of the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of other income, gains and losses, share of profit of a joint venture and finance costs. 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 is presented as it is not regularly reviewed by the Group's chief operating decision maker.

6. REVENUE AND SEGMENT INFORMATION — *continued*

Geographical information

Substantially all of the Group's identifiable assets and liabilities are located in the People's Republic of China ("PRC"). The Group's revenue from external customers by geographical location is detailed below:

	2018	2017
	RMB'000	RMB'000
PRC	**1,651,299**	1,477,119
Other countries	**—**	89
	1,651,299	1,477,208

Information about major customers

No single customer accounted for 10% or more of the Group's revenue during the years ended December 31, 2018 and 2017.

7. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	RMB'000	RMB'000
Other income:		
Interest incomes	**55,228**	45,101
Government grants (Note)	**14,067**	13,316
Management service income	**1,309**	3,636
	70,604	62,053
Net gains and losses:		
Net loss on disposal of property and equipment	**(11,121)**	(78)
Donation	**(3,282)**	(149)
Net foreign exchange gain (loss)	**6,211**	(2,937)
Others	**(2,240)**	(84)
	(10,432)	(3,248)
Other income, gains and losses	**60,172**	58,805

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.

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on:		
— borrowings	**4,992**	5,996
— loans from non-controlling shareholders of subsidiaries (Note 31)	**3,121**	9,589
— others	**180**	—
Total finance costs	**8,293**	15,585

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2018 RMB'000	2017 RMB'000
Staff costs, including Directors' remuneration (Note 10)		
Salaries, wages, bonus and other benefits	**347,977**	292,240
Contributions to retirement benefits scheme (Note 40)	**22,667**	19,578
Share-based payments expenses	**30,548**	42,538
Total staff costs	**401,192**	354,356
Depreciation of property and equipment	**41,526**	32,134
Amortization of intangible assets and prepaid lease payments	**4,125**	1,524
Amortization of cemetery assets	**46,637**	40,347
Amortization of other long-term assets	**442**	692
Operating lease rentals	**24,916**	16,081

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2018 RMB'000	2017 RMB'000
Directors' fees	**8,880**	8,880
Other emoluments		
Discretionary bonus	**2,000**	2,000
Contributions to retirement benefits scheme	**146**	152
Share-based payments expenses	**6,473**	8,136
	17,499	19,168

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — *continued*

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

For the year ended December 31, 2018

	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	1,000	1,000	–	2,000
Contributions to retirement benefits scheme	73	73	–	146
Share-based payment expenses	2,606	2,606	113	5,325
Sub-total	7,279	7,279	353	14,911

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

	Huang James Chih-cheng RMB'000	Lu Hesheng RMB'000	Ma Xiang 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	–	303	113	416
Sub-total	240	543	353	1,136

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — *continued*

For the year ended December 31, 2018 — *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	183	183	183	183	732
Sub-total	183	423	423	423	1,452

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

For the year ended December 31, 2017

	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	1,000	1,000	—	2,000
Contributions to retirement benefits scheme	76	76	—	152
Share-based payment expenses	3,121	3,121	237	6,479
Sub-total	7,797	7,797	477	16,071

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — *continued*

For the year ended December 31, 2017 — *continued*

	Huang James Chih-cheng RMB'000	Lu Hesheng RMB'000	Ma Xiang 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	26	420	211	657
Sub-total	266	660	451	1,377

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

	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	250	250	250	250	1,000
Sub-total	250	490	490	490	1,720

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 34 to the Group's consolidated financial statements.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — *continued*

The five highest paid individuals of the Group included two directors (2017: two) for the year ended December 31, 2018. The remuneration of the remaining three (2017: three) individuals during the year is as follows:

	2018 **RMB'000**	2017 RMB'000
Employees		
Salaries, wages and other benefits	**4,776**	4,900
Discretionary bonus	**1,900**	1,800
Contributions to retirement benefits scheme	**146**	151
Share-based payments expenses	**2,187**	2,966
	9,009	9,817

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

	Number of individuals	
	2018	2017
Hong Kong Dollars ("HK$") 3,000,001–HK$3,500,000	**2**	1
HK$3,500,001–HK$4,000,000	**1**	1
HK$4,000,001–HK$4,500,000	**–**	1
HK$8,500,001–HK$9,000,000	**2**	–
HK$9,000,001–HK$9,500,000	**–**	2
	5	5

11. INCOME TAX EXPENSE

	2018 **RMB'000**	2017 RMB'000
PRC Enterprise Income Tax ("PRC EIT")		
Current year	**176,976**	156,727
Over provision in prior years	**(5,893)**	(14,061)
Deferred tax (Note 21)	**(11,943)**	(8,055)
	159,140	134,611

11. INCOME TAX EXPENSE — *continued*

The tax charge for the years ended December 31, 2018 and 2017 can be reconciled to the profit before taxation as follows:

	2018 **RMB'000**	2017 RMB'000
Profit before taxation	**774,773**	684,784
Tax at the PRC EIT rate of 25% (2017: 25%)	**193,693**	171,196
Tax effect of expenses not deductible for tax purpose	**10,562**	5,494
Tax effect of income not taxable for tax purpose	**(13,205)**	(6,015)
Tax effect of different tax rates	**(888)**	(2,389)
Tax effect of tax losses not recognized	**8,189**	2,361
Tax effect of losses of offshore entities not recognized	**10,334**	14,561
Utilization of tax losses previously not recognized	**(5,633)**	(5,208)
Tax deduction on exercised share options (Note)	**(38,019)**	(31,328)
Over provision in prior years	**(5,893)**	(14,061)
Income tax expense for the year	**159,140**	134,611

Note: During the year ended December 31, 2018, 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%.

According to the Circular of the Ministry of Finance, General Administration of Customs and State Administration of Taxation on the Implementation of tax policies related to the Western Development Strategy (Caishui [2011] No. 58), Chongqing Anle Services Company Limited ("Chongqing Anle Services"), Chongqing Baitayuan Funeral and Burial Development Co., Ltd. ("Chongqing Baitayuan"), Chongqing Anle Funeral Services Company Limited ("Chongqing Anle Funeral Services"), Guizhou Tianyuanshan Funeral Services Company Limited ("Guizhou Tianyuanshan") and Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd. ("Xiyuan Fu Shou Yuan"), subsidiaries of the Group, which are located in specific provinces of Western China and engaged in specific encouraged industry, enjoy a preferential PRC EIT rate of 15%. The preferential tax rate for Chongqing Anle Services, Chongqing Baitayuan, Chongqing Anle Funeral Services, Guizhou Tianyuanshan and Xiyuan Fu Shou Yuan is effective until 2020.

Fu Shou Yuan Group (Hong Kong) Limited ("FSY Hong Kong") is subject to Hong Kong profit tax at a rate of 16.5% in 2017 and two-tiered profits tax rates regime is applicable to years of assessment beginning on or after April 1, 2018. On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 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, 2018 and 2017.

12. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends for ordinary shareholders of the Company recognized as distributions during the year		
2018 Interim — HK3.72 cents (2017: 2017 interim dividend — HK3.24 cents) per share	**71,697**	58,496
2017 Final — HK3.24 cents (2017: 2016 final dividend — HK2.60 cents) per share	**57,969**	48,039
	129,666	106,535

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2018 of HK3.72 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. The dividend will be payable to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, May 30, 2019.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2018	2017
Earnings		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	**488,364**	417,350
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,196,619,245**	2,131,816,548
Effect of dilutive potential ordinary shares:		
Share options	**36,936,773**	33,115,282
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,233,556,018**	2,164,931,830

14. 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, 2017	270,386	23,052	56,042	42,645	114,782	506,907
Additions	1,683	8,115	15,651	1,865	92,681	119,995
Acquired on acquisitions of subsidiaries (Note 35)	3,357	857	926	604	8,136	13,880
Transfer	44,436	–	1,232	–	(45,668)	–
Disposals	–	(99)	(1,509)	(1,764)	–	(3,372)
At December 31, 2017	319,862	31,925	72,342	43,350	169,931	637,410
Additions	19,815	8,719	17,987	7,065	26,408	79,994
Acquired on acquisitions of subsidiaries (Note 35)	3,872	–	382	817	24,054	29,125
Transfer	71,553	2	586	79	(72,220)	–
Disposals	(101)	–	(2,260)	(8,160)	–	(10,521)
At December 31, 2018	415,001	40,646	89,037	43,151	148,173	736,008
DEPRECIATION						
At January 1, 2017	64,618	10,392	28,344	26,124	–	129,478
Provided for the year	14,863	4,860	7,174	5,237	–	32,134
Eliminated on disposals	–	(49)	(1,239)	(1,667)	–	(2,955)
At December 31, 2017	79,481	15,203	34,279	29,694	–	158,657
Provided for the year	19,921	7,224	8,883	5,498	–	41,526
Eliminated on disposals	(3)	–	(2,014)	(7,158)	–	(9,175)
At December 31, 2018	99,399	22,427	41,148	28,034	–	191,008
CARRYING VALUES						
At December 31, 2017	240,381	16,722	38,063	13,656	169,931	478,753
At December 31, 2018	315,602	18,219	47,889	15,117	148,173	545,000

14. 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	19.00%–20.00%
Furniture, fixtures and equipment	9.50%–31.67%
Motor vehicles	19.00%–25.00%

As at December 31, 2018, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB119,682,000 (2017: RMB99,026,000) had not been obtained.

15. 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 finite useful lives and amortized on a straight-line basis over the lease terms.

During the year ended December 31, 2018, the prepaid lease payments are released to profit or loss as expenses amounting RMB1,226,000 (2017: RMB380,000). No prepaid lease payment is transferred to cemetery asset during the year ended December 31, 2018 (2017: RMB1,224,000).

16. INVESTMENT PROPERTY

	RMB'000
FAIR VALUE	
At January 1, 2017, December 31, 2017 and January 1, 2018	6,509
Addition	–
Net increase in fair value recognized in profit or loss	–
At December 31, 2018	6,509

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

In the opinion of the directors of the Company, the fair value of investment property as of December 31, 2018 approximates to the carrying value after taking account of market comparable data.

The following table gives information about how the fair values of these investment properties as at December 31, 2018 are determined (in particular, the valuation approaches and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorise based on the degree to which the inputs to the fair value measurements is observable.

16. INVESTMENT PROPERTY — *continued*

Investment property held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique and key input(s)
Residential property located in Shanghai — completed property RMB6,509,000 (2017: RMB6,509,000)	Level 3	Market-based Approach Taking into account the time, location and individual factors, such as frontage and the size, between the comparables and the property. The key input: Price per square meter RMB67,000 (Note)

Note: Any significant isolated increases (decreases) in these inputs would result in a significantly higher (lower) fair value measurement.

17. INTANGIBLE ASSETS

	Computer software RMB'000	License for provision of funeral services RMB'000	Total RMB'000
COST			
At January 1, 2017	4,624	11,808	16,432
Additions	4,185	—	4,185
Acquired on acquisition of a subsidiary	122	—	122
At December 31, 2017	8,931	11,808	20,739
Additions	7,344	—	7,344
At December 31, 2018	16,275	11,808	28,083
AMORTIZATION			
At January 1, 2017	2,397	—	2,397
Provided for the year	1,144	—	1,144
At December 31, 2017	3,541	—	3,541
Provided for the year	2,899	—	2,899
At December 31, 2018	6,440	—	6,440
CARRYING VALUES			
At December 31, 2017	5,390	11,808	17,198
At December 31, 2018	9,835	11,808	21,643

17. INTANGIBLE ASSETS – *continued*

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 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, 2018 and 2017, the Group's management determined that there was no impairment of license.

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

During the year ended December 31, 2018, the Group performed impairment review for the license of the cash-generating units ("CGUs") of Chongqing Anle Services based on cash flow forecasts derived from the most recent financial budgets for the next ten years approved by management using discount rate of 14% (2017: 12%) per annum which reflects current market assessments of the time value of money and the risks specific to the CGUs. The cash flows beyond the next ten years are extrapolated using a growth rate of 2% (2017: 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.

18. GOODWILL

The movements of goodwill as at December 31, 2018 and 2017 are as follows:

	2018 **RMB'000**	2017 RMB'000
COST		
At January 1	**360,274**	290,634
Arising on acquisition of subsidiaries (Note 35)	**67,747**	69,640
At December 31	**428,021**	360,274

18. GOODWILL — *continued*

The carrying amounts of goodwill as at December 31, 2018 and 2017 are as follows:

	2018 **RMB'000**	2017 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**	22,973
Luoyang Xianhe Cemetery	**23,451**	23,451
Temshine	**23,433**	23,433
Guangxi Huazuyuan Cemetery	**22,756**	22,756
Chaoyang Longshan Cemetery	**12,903**	—
Guizhou Tianyuanshan	**19,123**	—
Helinge'er Anyou Cemetery	**35,721**	—
	428,021	360,274

For the purposes of impairment testing, goodwill has been allocated to each of the individual CGUs, comprising 16 subsidiaries (2017: 13) in the burial, funeral and other services segment. During the years ended December 31, 2018 and 2017, 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 in the first ten-year period 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:

All these calculations use cash flow projections based on financial budgets approved by management covering a ten-year period and a discount rate of 14% (2017: 12%). Cash flow beyond that ten-year period has been extrapolated using a steady 2% growth rate for conservative purpose. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Haigang Fu Shou Yuan, Jinzhou Maoshan Anling, Henan Fu Shou Yuan, Chongqing Baitayuan, Meilin Century Cemetery, Guanlingshan Cultural Cemetery, Wuyuan Wanshoushan Cemetery, Anyang Tianshouyuan Cemetery, Changzhou Qifengshan Cemetery, Zaozhuang Shanting Xingtai, Luoyang Xianhe Cemetery, Temshine, Guangxi Huazuyuan Cemetery, Chaoyang Longshan Cemetery, Guizhou Tianyuanshan and Helinge'er Anyou Cemetery to exceed the aggregate recoverable amount of the respective CGUs.

19. CEMETERY ASSETS

	Land costs	Landscape facilities	Development cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At January 1, 2017	781,760	191,751	262,470	1,235,981
Additions	79,243	22,162	19,074	120,479
Acquired on acquisitions of subsidiaries (Note 35)	63,485	16,447	22,095	102,027
Transfer to inventories	(32,662)	(8,294)	(8,072)	(49,028)
At December 31, 2017	891,826	222,066	295,567	1,409,459
Additions	96,300	6,967	21,817	125,084
Acquired on acquisitions of subsidiaries (Note 35)	72,446	25,444	2,235	100,125
Transfer to inventories	(6,093)	(924)	(2,146)	(9,163)
At December 31, 2018	1,054,479	253,553	317,473	1,625,505
AMORTIZATION				
At January 1, 2017	69,483	40,031	21,936	131,450
Provided for the year	21,329	13,471	5,547	40,347
Eliminated on transfer	(4,570)	(1,713)	(876)	(7,159)
At December 31, 2017	86,242	51,789	26,607	164,638
Provided for the year	25,477	15,009	6,151	46,637
Eliminated on transfer	(853)	(438)	(328)	(1,619)
At December 31, 2018	110,866	66,360	32,430	209,656
CARRYING VALUES				
At December 31, 2017	805,584	170,277	268,960	1,244,821
At December 31, 2018	943,613	187,193	285,043	1,415,849

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

19. CEMETERY ASSETS — *continued*

Landscape facilities represent the construction cost of facilities such as 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 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 inventories.

20. RESTRICTED DEPOSITS

Restricted deposits represent the deposits which are placed in designated joint controlled bank accounts with local funeral associations. 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 only with simultaneous approvals from both sides of the subsidiary and the respective funeral association for cemetery maintenance expenditure.

21. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized by the Group and movements thereon during the year ended December 31, 2018 and 2017:

	Contract liabilities RMB'000	**Tax losses** RMB'000	**Fair value adjustment** RMB'000 (Note)	**Total** RMB'000
At January 1, 2017	22,809	4,704	(89,142)	(61,629)
Acquisitions of subsidiaries (Note 35)	—	3,502	1,377	4,879
Credit to profit or loss	4,434	468	3,153	8,055
At December 31, 2017	27,243	8,674	(84,612)	(48,695)
Acquisitions of subsidiaries (Note 35)	—	—	(12,673)	(12,673)
Credit to profit or loss	3,880	3,484	4,579	11,943
At December 31, 2018	31,123	12,158	(92,706)	(49,425)

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

21. DEFERRED TAXATION – *continued*

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:

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets	**45,377**	38,039
Deferred tax liabilities	**(94,802)**	(86,734)
	(49,425)	(48,695)

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 RMB106,791,000 (2017: RMB82,113,000) as at December 31, 2018. Deferred tax assets have been recognized in respect of approximately RMB48,632,000 (2017: RMB34,696,000) of such losses as at December 31, 2018. No deferred tax assets have been recognized in respect of the remaining approximately RMB58,159,000 (2017: RMB47,417,000) as at December 31, 2018 due to the unpredictability of future profit streams.

Pursuant to the rules and regulations in the PRC, the unrecognized tax losses at the end of each reporting period will expire in five years. The deductible taxable losses which are not recognized as deferred tax assets will expire in the following years as bellows:

	2018 **RMB'000**	2017 RMB'000
2018	**–**	5,323
2019	**8,855**	22,538
2020	**206**	893
2021	**6,942**	9,219
2022	**7,997**	9,444
2023	**34,159**	–
	58,159	47,417

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 RMB1,925,788,000 (2017: RMB1,441,744,000) 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.

22. OTHER LONG-TERM ASSETS

	2018 RMB'000	2017 RMB'000
Contract fee (a)	–	13,200
Franchise right (b)	11,319	7,635
Long-term deposits (c)	14,020	–
	25,339	20,835

Other long-term assets mainly represent:

(a) Contract fee prepaid to a third party in accordance with a management service agreement, pursuant to which the Group is entitled to provide management service to a cemetery owned by Chaoyang Longshan Fuyuan Cemetery Co., Ltd ("Chaoyang Longshan Cemetery"), and to obtain fee from the services provided. The prepayments were amortized over the agreed service period. In May 2018, Chaoyang Longshan Cemetery has been acquired by the Group (Note 35).

(b) Franchise right mainly represents the right obtained from a third party in accordance with a management service agreement, pursuant to which the Group is entitled to provide management service for a funeral parlour owned by the third party, and to obtain variable fee from the services provided. The franchise right are amortized over the agreed service period. Franchise right has finite useful life and is amortized on a straight-line basis over its estimated useful life of 30 to 35 years.

(c) Long-term deposits are deposits paid to Hangzhou Xiaoshan Funeral Service Center and Civil Affairs Bureau of Zheng'an County to guarantee the execution of projects. The deposits are not subjected to be repaid in one year and thus classified in long-term assets.

During the year ended December 31, 2018, amortization of other long-term assets charged to profit or loss as expenses amounting to RMB442,000 (2017: RMB692,000).

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Burial plots	308,525	302,733
Tombstone	91,550	80,159
Others	47,928	43,489
	448,003	426,381

24. TRADE AND OTHER RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**14,778**	6,310
Other receivables comprise:		
Prepayments and rental deposits on properties	**3,632**	2,650
Staff advances	**1,791**	1,335
Entrusted loan (Note)	**11,950**	12,950
Management service income receivable	**–**	2,355
Bond for new projects	**3,462**	1,055
Prepayments to suppliers	**2,196**	451
Others	**13,695**	20,201
	51,504	47,307

Note: As of December 31, 2018, the Group has advanced an unsecured loan amounting to RMB11,950,000 (2017: RMB12,950,000) to a cemetery for which the Group is providing management services. The entrusted loan is interest-free and repayable within one year.

The Group ordinarily demands its customers for full cash settlement prior to or upon the delivery of burial services. The Group may allow a credit period to its customers for sales of cremation machines, provision of landscape and garden design services, and services offered to local funeral administration authorities. Before accepting any new customer asking for credit period, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**10,207**	–
Over one year but less than two years	**–**	6,269
Over two years but less than three years	**4,571**	41
	14,778	6,310

24. TRADE AND OTHER RECEIVABLES — *continued*

Ageing of trade receivables which are past due but not impaired

	2018 **RMB'000**	2017 RMB'000
Aged:		
Within one year	**–**	–
Over one year but less than two years	**–**	332
Over two years but less than three years	**–**	41
	–	373

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.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2018 **RMB'000**	2017 RMB'000
Unlisted cash management products (a)	**577,420**	–
Equity investment (b)	**29,761**	–
	607,181	–

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — *continued*

(a) Unlisted cash management products

During the period, the Group entered into a number of structured deposit and cash management products (collectively referred to as "cash management products") as part of its treasury management.

Details of the cash management products as at December 31, 2018 are as follows:

Bank	**Name of products**	**Currency**	**Amount** RMB'000	**Term/call date**	**Expected yield rate**	**Principal-guaranteed**
China Merchants Bank	Structured deposit (Note 1)	RMB	10,000	30 days	4.00%	Yes
Shanghai Pudong Development Bank	Li Duo Duo ("利多多") cash management (Note 2)	RMB	180,000	Redeemable on call after 7 days on work day	3.75%–3.80%	No
Shanghai Pudong Development Bank	Li Duo Duo E Lu Fa ("利多多E路發") (Note 2)	RMB	97,110	Redeemable on call after 14 work days on work day	3.70%–3.80%	No
Shanghai Pudong Development Bank	Tian Tian Li ("天添利") Mini (Note 2)	RMB	100	Redeemable on call on work day	3.05%	No
Industrial and Commercial Bank of China	Zhou Zhou Fen Hong ("周周分紅") (Note 2)	RMB	2,600	Redeemable on call on work day	2.50%	No
Industrial and Commercial Bank of China	Ru Yi Ren Sheng ("如意人生")I B (Note 2)	RMB	7,610	Redeemable on the 20th day of every month	2.20%	No
China Construction Bank	Xin Xin Xiang Rong ("鑫鑫向榮") (Note 2)	RMB	200,000	95 days	4.30%	No
China Construction Bank	Ri Ri Xin ("日日鑫") (Note 2)	RMB	80,000	Redeemable on call on work day	2.70–3.90%	No

Note 1: The product is structured deposit of which the return was determined by reference to the performance of the commodity gold price.

Note 2: Investment portfolio of the products includes government debt instruments, treasury notes, corporate bonds and etc.

The cash management products have been accounted for financial assets at FVTPL on initial recognition. In the opinion of the directors of the Company, the fair value of the cash management products at December 31, 2018 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — *continued*

(b) Equity investment

In July 2018, the Group has made an equity investment of Changchun Huaxia Cemetery Co., Ltd. in the amount of RMB29,000,000, accounting for 10% of the total equity interests and this equity investment was measured at FVTPL. Huaxia Cemetery is an unlisted company providing burial services in Changchun City of Jilin Province.

In the opinion of the directors of the Company, the fair value was about RMB30 million as at December 31, 2018 and the fair value change of these equity investments is insignificant since the initial recognition. The performance of Huaxia Cemetery for the year ended December 31, 2018 was consistent with the expectation at time of investment decision. No dividend has been distributed by Huaxia Cemetery for the year ended December 31, 2018.

26. TIME DEPOSITS

	2018 **RMB'000**	2017 RMB'000
RMB-denominated	**48,298**	10,000
	48,298	10,000

As of December 31, 2018, the Group had fixed-term deposits in banks in the PRC with maturities of six months ("Time Deposits"). The deposits of carry fixed interests rate from 1.920% to 1.937% per annum (2017: fixed interests rate of 4.20% per annum).

27. BANK BALANCES AND CASH

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

	2018	2017
Interest rate per annum		
— RMB	**0.30%–4.35%**	0.35%–3.8%
— HK$	**0.01%–2.45%**	0.01%
— US$	**0.05%**	0.05%

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

	2018 **RMB'000**	2017 RMB'000
HK$	**74,500**	97,069
US$	**33,360**	31,315
	107,860	128,384

28. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**165,393**	126,209
Other payables comprise:		
Advances and deposits from customers	**14,688**	23,706
Payables for acquisition of property and equipment	**604**	604
Salary, welfare and bonus payables	**139,541**	110,546
Other accrued expenses	**49,134**	44,965
Consideration payables for acquisition of subsidiaries	**39,578**	35,076
Others	**25,358**	49,789
	434,296	390,895

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

	2018 RMB'000	2017 RMB'000
0–90 days	**62,467**	41,440
91–180 days	**17,485**	11,370
181–365 days	**15,139**	40,272
Over 365 days	**70,302**	33,127
	165,393	126,209

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

29. BORROWINGS

	2018 RMB'000	2017 RMB'000
Borrowings carry at variable interest rate		
— Secured by the Group's equity interest in subsidiaries	**43,860**	81,020
— Unsecured	**60,000**	32,000
	103,860	113,020
The carrying amounts of the above borrowings are repayable*:		
Within one year	**75,000**	60,500
More than one year, but not exceeding two years	**15,000**	20,830
More than two years but not more than five years	**13,860**	31,690
	103,860	113,020
Less: amounts due within one year shown under current liabilities	**(75,000)**	(60,500)
Amounts shown under non-current liabilities	**28,860**	52,520

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

The Group's variable-rate bank borrowings carry interests at the People's Bank of China benchmark rate plus a premium. For the year ended December 31, 2018, the interest rates of the variable-rate borrowings ranged 4.350% to 4.998% per annum (2017: 4.350% to 4.998%).

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

	2018 RMB'000	2017 RMB'000
Net book value of the Group's equity interest in subsidiaries	**121,630**	133,568

30. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018* RMB'000
Cemetery maintenance services	**326,496**	281,181
Sales of pre-need contracts	**10,747**	4,045
	337,243	285,226
Current	**35,442**	26,662
Non-Current	**301,801**	258,564
	337,243	285,226

* The amounts in this column are after the adjustments from the application of IFRS 15.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Cemetery maintenance services

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 the Group's 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 revenue to be deferred, which is recorded as the contract liabilities relating to cemetery maintenance services. 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, 2018, the Group generated revenue from the provision of cemetery maintenance services in the amount of approximately RMB24,720,000 (2017: RMB22,460,000).

Sales of pre-need contracts

Sales of pre-need contracts is sales of funeral services based on a contract prior to death occurring. The payment is due when the pre-need contract is signed, this will give rise to contract liabilities at the start of a contract, until the revenue recognised when the funeral service is offered. Therefore, this part of advance payment belongs to the current liabilities of the Group.

31. LOAN FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

	2018 **RMB'000**	2017 RMB'000
Chongqing Guolong Agricultural Science and Technology Development Co. Ltd.* (重慶國隆農業科技發展有限公司)	**26,950**	10,039
Shandong World Trade Center* (山東世界貿易中心)	**31,969**	41,525
	58,919	51,564

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

The loan from Chongqing Guolong Agricultural Science and Technology Development Co. Ltd. carries a fixed interest rate at 4.350% per annum and is due in January 2019.

The loan from Shandong World Trade Center carries a fixed interest rate at 5.655% (December 31, 2017: 4.785%) per annum.

As at December 31, 2018 and December 31, 2017, Shandong World Trade Center has confirmed that it shall not demand repayment of the amount due to it within twelve months from each of the period end. Accordingly, the amount is shown under non-current as at December 31, 2018 and December 31, 2017.

32. SHARE CAPITAL

	Number of shares	**Amount** US$
Ordinary shares of US$0.01 each		
Authorized:		
At January 1, 2017, December 31, 2017 and December 31, 2018	20,000,000,000	200,000,000

	Number of shares	**Amount** US$	**Shown in the consolidated financial statements as** RMB'000
Issued and fully paid:			
At January 1, 2017	2,102,357,727	21,023,577	127,470
Exercise of share options (Note 34)	62,181,695	621,817	4,196
At December 31, 2017	2,164,539,422	21,645,394	131,666
Exercise of share options (Note 34)	50,535,000	505,350	3,254
At December 31, 2018	2,215,074,422	22,150,744	134,920

The new shares rank pari passu with the existing shares in all respects.

33. RESERVES

Statutory surplus reserve

As stipulated by the relevant laws and regulations in the PRC, the Group'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 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 are granted 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, 2017:

	Number of options			
	Balance outstanding as at January 1, 2017	Exercised during the year ended December 31, 2017	Forfeited during the year ended December 31, 2017	Balance outstanding as at December 31, 2017
Directors				
Bai Xiaojiang	3,453,452	(3,453,452)	–	–
Wang Jisheng	3,453,452	(3,453,452)	–	–
	6,906,904	(6,906,904)	–	–
Other employees	24,278,538	(24,256,791)	(21,747)	–
Total	31,185,442	(31,163,695)	(21,747)	–
Exercisable at December 31	31,185,442			–
Weighted average exercise price (HK$)	1	1	1	–

All the share options have been exercised in 2017, and no changes were made in 2018.

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 contributions to the Group and/or to enable the Group to recruit and retain high-calibre 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").

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

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 are granted at an exercise price of HK$4.14 per share.

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

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

(3) All Share Option A granted to the 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.

The fair values of the Option A granted to the directors of the Company and employees at grant date are HK$1.27 per share and HK$0.78 per share respectively, representing RMB37,849,000 in total, which is 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.

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

Granted on August 5, 2014 — continued

Expected volatility was determined based on the historical share price volatility. The Binomial Model has been used to estimate the fair value of the options. The variable and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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 are granted at an exercise price of HK$3.126 per share.

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

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

The fair value of the Option B at grant date is HK$0.47 per share, representing 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 Binomial Model has been used to estimate the fair value of the options. The variable and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

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 are granted 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.

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 Binomial Model has been used to estimate the fair value of the options. The variable and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

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 are granted 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.

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 Binomial Model has been used to estimate the fair value of the options. The variable and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

Granted on March 20, 2017

On March 20, 2017, the Company granted 50,000,000 share options (the "Share Option E") to the directors of the Company and employees of the Group under the following terms:

(1) All Share Option E are granted at an exercise price of HK$4.850 per share.

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

Exercise Period	Maximum percentage of share underlying the option exercisable
From March 20, 2019 to March 19, 2021	50% of the total number of shares underlying the options granted.
From March 20, 2020 to March 19, 2021	50% of the total number of shares underlying the options granted.

The fair value of the Option E at grant date is HK$1.00 per share, representing RMB44,301,000 in total, which is determined using a binomial option pricing model. The inputs into the model were as follows:

Grant date share price	HK$4.850
Exercise price	HK$4.850
Expected volatility	29.22%
Option life	4 years
Dividend yield	2%
Risk-free interest rate	1.41%
Forfeiture rate	3.83%

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 Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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 E granted under the Share Option Scheme during the year ended December 31, 2018:

	Batch	Date of grant	Exercise price per Share (HK$)	Number of options: Balance outstanding as at January 1, 2018	Granted during the year ended December 31, 2018	Exercised during the year ended December 31, 2018	Forfeited during the year ended December 31, 2018	Balance outstanding as at December 31, 2018
Directors								
Bai Xiaojiang	Share Option A	August 5, 2014	4.14	–	–	–	–	–
	Share Option B	March 19, 2015	3.126	1,500,000	–	–	–	1,500,000
	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
	Share Option E	March 20, 2017	4.850	5,000,000	–	–	–	5,000,000
Wang Jisheng	Share Option A	August 5, 2014	4.14	–	–	–	–	–
	Share Option B	March 19, 2015	3.126	1,500,000	–	–	–	1,500,000
	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
	Share Option E	March 20, 2017	4.850	5,000,000	–	–	–	5,000,000
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
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
	Share Option E	March 20, 2017	4.850	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
	Share Option E	March 20, 2017	4.850	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
	Share Option E	March 20, 2017	4.850	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
	Share Option E	March 20, 2017	4.850	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
	Share Option E	March 20, 2017	4.850	300,000	–	–	–	300,000
				27,100,000	–	(2,000,000)	–	25,100,000
Other employees	Share Option A	August 5, 2014	4.14	16,879,000	–	(16,804,000)	(75,000)	–
	Share Option B	March 19, 2015	3.126	35,673,000	–	(25,874,000)	–	9,799,000
	Share Option C	March 24, 2016	5.824	41,300,000	–	(5,857,000)	–	35,443,000
	Share Option E	March 20, 2017	4.850	38,300,000	–	–	–	38,300,000
Total				159,252,000	–	(50,535,000)	(75,000)	108,642,000
Exercisable at December 31				34,252,000				33,642,000
Weighted average exercise price (HK$)				4.63	N/A	3.82	4.14	5.01

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 E granted under the Share Option Scheme during the year ended December 31, 2017:

	Batch	Date of grant	Exercise price per Share (HK$)	Number of options: Balance outstanding as at January 1, 2017	Granted during the year ended December 31, 2017	Exercised during the year ended December 31, 2017	Forfeited during the year ended December 31, 2017	Balance outstanding as at December 31, 2017
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	–	(1,500,000)	–	1,500,000
	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
	Share Option E	March 20, 2017	4.850	–	5,000,000	–	–	5,000,000
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	–	(1,500,000)	–	1,500,000
	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
	Share Option E	March 20, 2017	4.850	–	5,000,000	–	–	5,000,000
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
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
	Share Option E	March 20, 2017	4.850	–	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
	Share Option E	March 20, 2017	4.850	–	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
	Share Option E	March 20, 2017	4.850	–	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
	Share Option E	March 20, 2017	4.850	–	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
	Share Option E	March 20, 2017	4.850	–	300,000	–	–	300,000
				22,400,000	11,700,000	(7,000,000)	–	27,100,000
Other employees	Share Option A	August 5, 2014	4.14	34,270,000	–	(17,391,000)	–	16,879,000
	Share Option B	March 19, 2015	3.126	42,300,000	–	(6,627,000)	–	35,673,000
	Share Option C	March 24, 2016	5.824	41,300,000	–	–	–	41,300,000
	Share Option E	March 20, 2017	4.850	–	38,300,000	–	–	38,300,000
Total				140,270,000	50,000,000	(31,018,000)	–	159,252,000
Exercisable at December 31				19,670,000				34,252,000
Weighted average exercise price (HK$)				4.37	4.85	3.83	N/A	4.63

34. SHARE-BASED COMPENSATION — *continued*

Share Option Scheme — *continued*

As 31 December 2018, 108,642,000 (2017: 159,252,000) share options remains outstanding under the Share Option Scheme, representing 4.90% (2017: 7.36%) of the ordinary shares of the Company in issue at that date.

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise is HK$7.86 (2017: HK$5.36).

The Group recognized total expense of approximately RMB30,548,000 (2017: RMB42,538,000) for the year in relation to Share Option B to E (2017: Share Option A to E) granted by the Company under Share Option Scheme.

35. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of 100% equity interest in Chaoyang Longshan Fuyuan Cemetery Co., Ltd. ("Chaoyang Longshan Cemetery")

On May 9, 2018, Shanghai Fu Shou Yuan Industry Development Co., Ltd ("Shanghai FSY"), a wholly-owned subsidiary of the Group, entered into an agreement with an independent third party not connected to the Group to acquire 100% equity interest in Chaoyang Longshan Cemetery, for a consideration of RMB34,212,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB12,903,000. Chaoyang Longshan Cemetery is engaged in burial service and was acquired as part of the Group's expansion. The acquisition was completed in May 2018.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(a) Acquisition of 100% equity interest in Chaoyang Longshan Cemetery — *continued*

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

	RMB'000
Property and equipment	228
Cemetery assets	21,005
Inventories	5,967
Other receivables	84
Bank balances and cash	807
Trade and other payables	(754)
Deferred tax liabilities	(4,528)
Contract liabilities	(1,500)
Net assets acquired	21,309
Goodwill	12,903
Consideration transferred	34,212
Satisfied by:	
Cash paid in 2018	19,042
Deposit paid in prior years	14,170
Consideration payable	1,000
Cash consideration	34,212
Cash paid upon completion of the acquisition	19,042
Less: bank balances and cash acquired	807
Net cash outflow arising on acquisition	18,235

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(a) Acquisition of 100% equity interest Chaoyang Longshan Cemetery — *continued*

Goodwill arising in the acquisition of Chaoyang Longshan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Chaoyang Longshan Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the year is a profit of approximately RMB101,000 which is attributable to Chaoyang Longshan Cemetery.

Had the acquisition been completed on January 1, 2018, total group revenue for the year would have been RMB1,655,374,000 and profit for the year would have been RMB615,581,000. The pro forma information is for illustrative purpose 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, 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Chaoyang Longshan Cemetery been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(b) Acquisition of 100% equity interest in Helinge'er County Anyou Ecological Memorial Cemetery Co., Ltd ("Helinge'er Anyou Cemetery")

In May 2018, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 100% equity interest of Helinge'er Anyou Cemetery by phases at a total consideration of RMB119,200,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB35,721,000. Helinge'er Anyou Cemetery is engaged in burial service and was acquired as part of the Group's expansion.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(b) Acquisition of 100% equity interest in Helinge'er Anyou Cemetery — *continued*

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

	RMB'000
Property and equipment	4,817
Cemetery assets	74,140
Inventories	19,999
Other receivables	16
Bank balances and cash	31,844
Trade and other payables	(33,212)
Deferred tax liabilities	(8,145)
Contract liabilities	(5,980)
Net assets acquired	83,479
Goodwill	35,721
Consideration transferred	119,200
Satisfied by:	
Consideration payable	6,825
Cash paid in 2018	112,375
Cash consideration	119,200
Net cash outflow arising on acquisition	112,375

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(b) Acquisition of 100% equity interest in Helinge'er Anyou Cemetery — *continued*

Goodwill arose in the acquisition of Helinge'er Anyou Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Helinge'er Anyou Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Included in the profit for the year is a loss of approximately RMB1,200,000 which is attributable to Helinge'er Anyou Cemetery.

Had the acquisition been completed on January 1, 2018, total group revenue for the year would have been RMB1,659,291,000 and profit for the year would have been RMB617,028,000. The pro forma information is for illustrative purpose 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, 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Helinge'er Anyou Cemetery been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan Funeral Service Co., Ltd. ("Guizhou Tianyuanshan")

In May 2018, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 80% equity interest of Guizhou Tianyuanshan by phases at a total consideration of RMB72,000,000.

In May 2018, Shanghai FSY acquired 80% equity interest in Guizhou Tianyuanshan for the first phase. Pursuant to the agreement, upon fulfilment of certain conditions, Shanghai FSY will make further capital contributions to Guizhou Tianyuanshan. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB19,123,000. Guizhou Tianyuanshan is engaged in burial service and funeral service and was acquired as part of the Group's expansion.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan — *continued*

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

	RMB'000
Property and equipment	24,080
Cemetery assets	4,980
Other long-term assets	9,021
Inventories	87
Other receivables	410
Bank balances and cash	233
Trade and other payables	(1,379)
Contract liabilities	(1,536)
Net assets acquired	35,896
Non-controlling interest	(7,179)
Goodwill	19,123
Consideration transferred	47,840
Satisfied by:	
Cash paid in 2018	41,800
Consideration payable	6,040
Cash consideration	47,840
Cash paid upon completion of the acquisition	41,800
Less: bank balances and cash acquired	233
Net cash outflow arising on acquisition	41,567

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(c) Acquisition of 80% equity interest in Guizhou Tianyuanshan — *continued*

Goodwill arose in the acquisition of Guizhou Tianyuanshan because the consideration for the combination effectively included amounts in relation to the future business growth of Guizhou Tianyuanshan. 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 profit of approximately RMB1,034,000 which is attributable to Guizhou Tianyuanshan.

Had the acquisition been completed on January 1, 2018, total group revenue for the year would have been RMB1,664,598,000 and profit for the year would have been RMB615,179,000. The pro forma information is for illustrative purpose 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, 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Helinge'er Anyou Cemetery been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(d) Acquisition of 80% equity interest in Luoyang Xianhe Cemetery Co., Ltd ("Luoyang Xianhe Cemetery")

On September 28, 2016, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 80% equity interest in Luoyang Xianhe Cemetery, for a cash consideration of RMB57,600,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB23,451,000. Luoyang Xianhe Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed in January 2017.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(d) Acquisition of 80% equity interest in Luoyang Xianhe Cemetery — *continued*

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

	RMB'000
Property and equipment	744
Cemetery assets	36,187
Inventories	16,891
Other receivables	458
Bank balances and cash	1,801
Trade and other payables	(8,644)
Deferred tax liabilities	(750)
Other long-term liabilities	(4,000)
Net assets acquired	42,687
Non-controlling interests	(8,538)
Goodwill	23,451
Consideration transferred	57,600
Satisfied by:	
Cash paid in 2017	47,600
Consideration payable	10,000
Cash consideration	57,600
Cash paid in 2017	47,600
Less: bank balances and cash acquired	(1,801)
Net cash outflow arising on acquisition in 2017	45,799

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(d) Acquisition of 80% equity interest in Luoyang Xianhe Cemetery — *continued*

Goodwill arose in the acquisition of Luoyang Xianhe Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Luoyang Xianhe Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition above is expected to be deductible for the tax purposes.

Included in the profit for 2017 is a profit of approximately RMB4,777,000 which is attributable to Luoyang Xianhe Cemetery.

Had the acquisition been completed on January 1, 2017, total group revenue for 2017 would have been RMB1,477,208,000, and profit for 2017 would have been RMB550,173,000. The pro forma information is for illustrative purpose 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, 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Luoyang Xianhe Cemetery been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

(e) Acquisition of 51% equity interest in Beijing Temshine Cemetery Design Group Ltd ("Temshine")

In March 2017, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 51% equity interest in Temshine, for a cash consideration of RMB18,445,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB23,433,000. Temshine is engaged in provision of designing services for cemeteries and was acquired as part of the Group's expansion. The acquisition was completed in July 2017.

The fair value of net liabilities and goodwill acquired in the transaction are as follows:

	RMB'000
Property and equipment	145
Other receivables	263
Bank balances and cash	3,724
Trade and other payables	(13,913)
Net liabilities acquired	(9,781)
Non-controlling interests	4,793
Goodwill	23,433
Consideration transferred	18,445
Satisfied by:	
Cash paid in 2017	8,132
Consideration payable	10,313
Cash consideration	18,445
Cash paid in 2017	8,132
Less: bank balances and cash acquired	(3,724)
Net cash outflow arising on acquisition in 2017	4,408

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(e) Acquisition of 51% equity interest in Temshine — *continued*

Goodwill arose in the acquisition of Temshine because the consideration for the combination effectively included amounts in relation to the future business growth of Temshine. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. It will not only bring synergy with the Group's current business, but also bring more merger and acquisition opportunities. None of the goodwill arising on the acquisition above is expected to be deductible for the tax purposes.

Included in the profit for 2017 is a profit of approximately RMB4,718,000 which is attributable to Temshine.

Had the acquisition been completed on January 1, 2017, total group revenue for 2017 would have been RMB1,479,776,000, and profit for 2017 would have been RMB549,153,000. The pro forma information is for illustrative purpose 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, 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Temshine been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(f) Acquisition of 60% equity interest in Guangxi Huazuyuan Investment Co., Ltd. ("Guangxi Huazuyuan Cemetery")

In June 2017, Shanghai FSY entered into an agreement with an independent third party not connected to the Group to acquire 60% equity interest in Guangxi Huazuyuan Cemetery, for a cash consideration of RMB45,600,000 through capital injection to Guangxi Huazuyuan Cemetery, of which RMB10,000,000 is not paid up at December 31, 2017. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB22,756,000. Guangxi Huazuyuan Cemetery is engaged in sale of burial plots and was acquired as part of the Group's expansion. The acquisition was completed in November 2017.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(f) Acquisition of 60% equity interest in Guangxi Huazuyuan Cemetery — *continued*

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

	RMB'000
Property and equipment	3,715
Intangible assets	122
Cemetery assets	29,856
Deferred tax assets	5,629
Inventories	7,936
Other receivables	654
Bank balances and cash	10,365
Trade and other payables	(16,521)
Other long-term liabilities	(3,683)
Net assets acquired	38,073
Non-controlling interests	(15,229)
Goodwill	22,756
Consideration transferred	45,600
Satisfied by:	
Cash paid in 2017	35,600
Consideration payable	10,000
Cash consideration	45,600
Capital injection	45,600
Less: bank balances and cash acquired	(10,365)
Net cash outflow arising on acquisition in 2017	35,235

Goodwill arose in the acquisition of Guangxi Huazuyuan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Guangxi Huazuyuan Cemetery. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition above is expected to be deductible for the tax purposes.

Included in the profit for 2017 is a profit of approximately RMB795,000 which is attributable to Guangxi Huazuyuan Cemetery.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(f) Acquisition of 60% equity interest in Guangxi Huazuyuan Cemetery — *continued*

Had the acquisition been completed on January 1, 2017, total group revenue for 2017 would have been RMB1,489,169,000, and profit for 2017 would have been RMB553,540,000. The pro forma information is for illustrative purpose 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, 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Guangxi Huazuyuan Cemetery been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of property and equipment, cemetery assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(g) Deemed acquisition of 51% equity interest in Huaibei Fu Shou Yuan Funeral Services Co., Ltd ("Fangshan Cemetery")

In 2015, the Group has entered into a joint venture arrangement with an independent third party not connected to the Group under which a joint venture project named Fangshan Cemetery for the development and sales of burial plots in Anhui Province, the PRC. Under the terms of the joint venture agreement, the Group and the joint venture partner shall respectively contribute cash of RMB30,000,000 and a right to use of a piece of land that is suitable for cemetery development to Fangshan Cemetery. In return, the Group and the joint venture partner shall respectively entitle 51% and 49% of the net profit to be generated from Fangshan Cemetery. In addition, as part of the joint venture agreement, effectively all the activities that can affect the variable return of Fangshan Cemetery require unanimous approval by both parties.

In July 2017, a supplementary agreement has been entered into between the joint venture parties under which the joint venture partner has agreed to surrender its joint control power in Fangshan Cemetery to the Group at nil consideration for the advancement and development of Fangshan Cemetery. Accordingly, the Group has accounted for Fangshan Cemetery as a consolidated business of the Group from July 2017.

35. ACQUISITIONS OF SUBSIDIARIES — *continued*

(g) Deemed acquisition of 51% equity interest in Fangshan Cemetery — *continued*

The fair value of net assets and goodwill acquired in the deemed acquisition are as follows:

	RMB'000
Property and equipment	9,276
Cemetery assets	35,984
Inventories	1,482
Other receivables	235
Bank balances and cash	14,014
Trade and other payables	(1,387)
Net assets acquired	59,604
Non-controlling interests	(29,206)
Consideration transferred	30,398
Satisfied by:	
Investment in a joint venture	30,398
Net cash inflow arising on the deemed acquisition	
Bank balances and cash assumed	14,014

Included in the profit for 2017 is a profit of approximately RMB774,000 which is attributable to Fangshan Cemetery.

Had the acquisition been completed on January 1, 2017, total group revenue for 2017 would have been RMB1,479,897,000, and profit for 2017 would have been RMB550,552,000.

The pro forma information is for illustrative purpose 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, 2017, 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, 2018.

The capital structure of the Group consists of net debt, which mainly includes borrowings and loans from non-controlling shareholders of subsidiaries, net of restricted deposits, time deposits, bank balances and cash, and equity attributable to owners of the Company, comprising 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, 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:

	2018 **RMB'000**	2017 RMB'000
Financial assets		
At FVTPL	**607,181**	–
At amortised cost	**1,631,238**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,008,693
Financial liabilities		
At amortized cost	**417,360**	387,462

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 shareholders of subsidiaries 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 Group 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, 2018 and 2017 are as follows:

	2018	2017
	RMB'000	RMB'000
Assets		
US$	**33,360**	31,315
HK$	**74,702**	97,549
Liabilities		
HK$	**2,725**	436

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.

37. FINANCIAL INSTRUMENTS — *continued*

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

Market risk — continued

Currency risk — continued

Sensitivity analysis — *continued*

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.

	2018 **RMB'000**	2017 RMB'000
If RMB strengthens against US$	**(1,251)**	(1,174)
If RMB strengthens against HK$	**(2,699)**	(3,642)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, time deposits, financial assets at FVTPL, and loan from non-controlling shareholders of subsidiaries.

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

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2018 **RMB'000**	2017 RMB'000
Financial assets at amortised cost	**31,083**	—
Loans and receivables (including bank balances and cash)	**—**	45,101

Interest expense on financial liabilities not measured at at FVTPL:

	2018 **RMB'000**	2017 RMB'000
Financial liabilities at amortised cost	**8,293**	15,585

37. FINANCIAL INSTRUMENTS — *continued*

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

Market risk — continued

Interest rate risk — continued

Sensitivity analysis

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, 2018 would have been increased/decreased by approximately RMB1,625,000 (2017: RMB1,489,000).

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, 2018 would have been decreased/increased by approximately RMB389,000 (2017: RMB424,000).

Credit risk and impairment assessment

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 consolidated 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, time deposits, financial assets at FVTPL and restricted deposits.

The credit risk in relation to the Group's bank balances, time deposits, restricted deposits and unlisted financial products and structured deposits of financial assets at FVTPL is limited 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 receivable. At December 31, 2018, the Group's two largest customers accounted for approximately 51.4% (2017: 93.3%) of the total trade receivable.

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 receivable is manageable.

37. FINANCIAL INSTRUMENTS — *continued*

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

Market risk — continued

Credit risk and impairment assessment — continued

The Group's internal credit risk grading assessment comprises th e following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

37. FINANCIAL INSTRUMENTS — *continued*

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

Market risk — continued

Credit risk and impairment assessment — continued

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised cost				
Bank balances	27	Low risk	12m ECL	1,493,651
Time deposits	26	Low risk	12m ECL	48,298
Restricted deposits	20	Low risk	12m ECL	46,852
Other receivables	24	(Note)	12m ECL	27,659
Trade receivables	24	Low risk	Lifetime ECL	14,778

Note: For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Other receivables	—	27,659	27,659

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*

Market risk — 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, 2018 and 2017.

	Weighted average rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2018					
Trade and other payables	**–**	**254,581**	**–**	**254,581**	**254,581**
Non-current loan from non-controlling shareholders of subsidiaries					
– fixed rate	**5.66**	**–**	**33,916**	**33,916**	**31,969**
Current loan from non-controlling shareholders of subsidiaries					
– fixed rate	**4.35**	**27,048**	**–**	**27,048**	**26,950**
Borrowings					
– variable rate	**4.77**	**79,523**	**35,254**	**114,777**	**103,860**
		361,152	**69,170**	**430,322**	**417,360**
At December 31, 2017					
Trade and other payables	–	222,878	–	222,878	222,878
Non-current loan from non-controlling shareholders of subsidiaries					
– fixed rate	4.79	–	43,512	43,512	41,525
Current loan from non-controlling shareholders of subsidiaries					
– fixed rate	4.35	10,076	–	10,076	10,039
Borrowings					
– variable rate	4.84	65,615	66,288	131,903	113,020
		298,569	109,800	408,369	387,462

37. FINANCIAL INSTRUMENTS — *continued*

c. Fair value measurements of financial instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	31/12/2018	**31/12/2017**		
Financial assets at FVTPL	Bank cash management products in PRC with principal of RMB577,420,000	Nil	Level 3	Discounted cash flows Key unobservable input is: (1) discount rate that reflects the credit risk of the bank (Note)
Unquoted equity investments	10% equity investment in Changchun Huaxia Cemetery Co., Ltd. of RMB29,761,000	Nil	Level 3	Income approach Key unobservable input is: (1) Long term revenue growth rates, taking into management's experience and knowledge of market conditions of the specific industry; (2) Weighted average cost of capital

Note: The directors of the Company consider that the impact of the fluctuation in expected discount rate of the cash management products was insignificant as the cash management products have short maturities, and therefore no sensitivity analysis is presented.

There is no transfer among level 1, 2 and 3 during the period.

Reconciliation of Level 3 fair value measurements

December 31, 2018

	Financial assets at FVTPL RMB'000
At January 1, 2018	–
Purchase	607,181
At December 31, 2018	607,181

The directors of the Company consider that the carrying amounts of financial assets recognized in the consolidated financial statements approximate their fair value.

38. OPERATING LEASES

The Group as lessee

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**23,455**	8,402
In the second to fifth year inclusive	**56,206**	14,669
After five years	**25,670**	7,074
	105,331	30,145

The lease payments represent rentals payable by the Group for certain properties and land. The lease terms ranged from 1 year to 25 years.

39. CAPITAL AND OTHER COMMITMENTS

	2018 **RMB'000**	2017 RMB'000
Capital expenditure in respect of the acquisition of property & equipment and cemetery assets contracted for but not provided in the consolidated financial statements	**104,228**	57,072
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	**40,000**	–

40. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Schemes Ordinance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. For members of the MPF Scheme, the Group contributes 5%, with maximum of HK$3,000 per person of relevant monthly 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 20% of the total monthly basic salaries of their 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.

40. RETIREMENT BENEFITS SCHEMES — *continued*

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB22,667,000 for the year ended December 31, 2018 (2017: RMB19,578,000), representing contributions paid and/or payable to the scheme by the Group for the year ended December 31, 2018. As at December 31, 2018, contributions of RMB1,338,000 due in respect of the year ended December 31, 2018 had not been paid over to the plans (December 31, 2017: RMB897,000). The amounts were paid subsequent to the end of the reporting period.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were of future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable RMB'000	Borrowings RMB'000	Loans from non-controlling shareholders of subsidiaries RMB'000	Total RMB'000
At January 1, 2018	**–**	**113,020**	**51,564**	**164,584**
Financing cash flows	**(244,145)**	**(14,152)**	**4,234**	**(254,063)**
Interest expense	**–**	**4,992**	**3,121**	**8,113**
Dividends paid to non-controlling interests	**114,479**	**–**	**–**	**114,479**
Dividends recognized as distributions	**129,666**	**–**	**–**	**129,666**
At December 31, 2018	**–**	**103,860**	**58,919**	**162,779**
At January 1, 2017	–	133,970	34,360	168,330
Financing cash flows	(203,732)	(26,946)	7,615	(223,063)
Interest expense	–	5,996	9,589	15,585
Dividends paid to non-controlling interests	97,197	–	–	97,197
Dividends recognized as distributions	106,535	–	–	106,535
At December 31, 2017	–	113,020	51,564	164,584

42. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors of the Company, who are also key management, is disclosed in Note 10.

43. DETAILS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary#	Place of incorporation/ registration and operations	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company At December 31, 2018 %	2017 %	Principal activities
Directly held:						
FSY Hong Kong+ 福壽園集團(香港)有限公司	Hong Kong	October 10, 2011	2 shares of HK$2.00	**100**	100	Investment holding
Indirectly held:						
Chongqing Fu Shou Yuan 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") 合肥大蜀山文化陵園有限公司	PRC	February 22, 2002	RMB10,000,000	**60**	60	Provision of burial services
Hefei Renben Funeral Service Company Limited^ ("Hefei Renben") 合肥人本禮儀服務有限公司	PRC	September 27, 2008	RMB1,200,000	**60**	60	Provision of funeral services
Hefei Huazhijian Flowers Company Limited^ ("Hefei Huazhijian") 合肥花之間花卉有限公司	PRC	May 13, 2010	RMB500,000	**60**	60	Provision of flowers and related designing services
Chongqing Anle Services^ 重慶安樂服務有限公司	PRC	September 11, 1997	RMB1,000,000	**100**	100	Provision of funeral services
Chongqing Anle Funeral Services^ 重慶安樂殯儀服務有限公司	PRC	January 23, 2003	RMB1,000,000	**100**	100	Provision of funeral services
Shanghai Fu Shou Yuan Funeral Arrangement Services Co., Ltd^ 上海福壽園禮儀服務有限公司	PRC	May 17, 2011	RMB500,000	**100**	100	Provision of funeral services
Jinzhou Maoshan Anling^ 錦州市帽山安陵有限責任公司	PRC	January 7, 2004	RMB8,000,000	**100**	100	Provision of burial services
Fumao Corporate Management Consultancy (Shanghai) Company Limited^ 福泖企業管理諮詢(上海)有限公司	PRC	January 27, 2011	RMB5,000,000	**100**	100	Investment holding
Chongqing Fu Shou Yuan Shareholding Investment Corporation (Limited Partnership)¯ 重慶福壽園股權投資企業(有限合夥)	PRC	November 10, 2010	RMB52,138,207	**100**	100	Investment holding

43. DETAILS OF SUBSIDIARIES — *continued*

Name of subsidiary#	Place of incorporation/ registration and operations	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company At December 31, 2018 %	2017 %	Principal activities
Indirectly held: — *continued*						
Nanchang Hongfu Humanities Memorial Co., Ltd^ (Nanchang Hongfu) 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
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 Environmental Equipment Company Limited^ 福壽園環保機械製造有限公司	PRC	November 20, 2012	RMB10,000,000	**100**	100	Manufacturing and sales of cremation devices
Shandong Fu Shou Yuan Development Company Limited^ ("Shandong Fu Shou Yuan") 山東福壽園發展有限公司	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	**60**	70	Provision of funeral services
Shanghai Nanyuan Industrial Development Co., Ltd.^ ("Haigang Fu Shou Yuan") (Note (a)) 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	**100**	100	Sales of agricultural products
Shanghai Fu Shou Yuan Jingguan Design Company Limited^ 上海福壽園景觀規劃設計有限公司	PRC	January 9, 2013	RMB1,000,000	**95**	95	Provision of designing service

43. DETAILS OF SUBSIDIARIES — *continued*

Name of subsidiary#	Place of incorporation/ registration and operations	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company At December 31, 2018 %	2017 %	Principal activities
Indirectly held: — *continued*						
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 Funeral Co., Ltd^ ("Meilin Century Cemetery") 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	**90**	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	**100**	75	Provision of burial service
Anyang Wulong Civil Service Co., Ltd.^ ("Anyang Tianshouyuan Cemetery") 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
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 ^ 泰安福壽園禮儀服務有限公司	PRC	March 9, 2016	RMB5,000,000	**100**	100	Provision of funeral service

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiary#	Place of incorporation/ registration and operations	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company At December 31, 2018 %	2017 %	Principal activities
Indirectly held: – *continued*						
Chongqing Fu Shou Yuan Xiyuan Industrial Co., Ltd^ (Chongqing Xiyuan) 重慶福壽園西苑實業有限公司	PRC	March 8, 2016	RMB80,000,000	**51**	51	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^ ("Zaozhuang Shanting Xingtai") 棗莊市山亭興泰殯儀服務有限公司	PRC	October 25, 2004	RMB1,500,000	**100**	100	Provision of burial service
Xuancheng Mashan Funeral Parlour Co., Ltd^ 宣城市馬山殯儀館有限公司	PRC	October 20, 2016	RMB70,000,000	**100**	100	Provision of funeral service
Hefei Renben Funeral Company Limited^ 合肥人本殯葬服務有限公司	PRC	December 5, 2016	RMB1,200,000	**100**	100	Provision of funeral services
Luoyang Xianhe Cemetery^ 洛陽仙鶴紀念陵園有限公司	PRC	August 31, 2015	RMB48,000,000	**80**	80	Provision of burial service
Yancheng Dafeng Fushouyuan Funeral and Burial Service Co., Ltd^ 鹽城大豐福壽園殯葬服務有限公司	PRC	January 17, 2017	RMB10,000,000	**100**	100	Provision of funeral service
Gaoyou Fushouyuan Funeral Services Co., Ltd^ 高郵福壽園殯葬服務有限公司	PRC	May 12, 2017	RMB10,000,000	**100**	100	Provision of funeral service
Huaibei Fushouyuan Memorial Mausoleum Co. Ltd.^ 淮北福壽園紀念陵有限責任公司	PRC	September 25, 2014	RMB30,000,000	**100**	100	Provision of burial service
Temshine^ 北京天泉佳境陵園建築設計有限公司	PRC	June 23, 2005	RMB6,150,000	**51**	51	Provision of designing service
Guangxi Huazuyuan Investment Co., Ltd^ 廣西華祖園投資有限公司	PRC	May 8, 2013	RMB25,000,000	**60**	60	Provision of burial service
Qinzhou Huazuyuan Investment Co., Ltd^ 欽州華祖園投資有限公司	PRC	July 31, 2017	RMB30,000,000	**60**	60	Provision of burial service
Taian Fu Shou Yuan Development Co., Ltd^ 泰安福壽園實業發展有限公司	PRC	April 29, 2016	RMB40,000,000	**65**	65	Provision of burial service

43. DETAILS OF SUBSIDIARIES – *continued*

Name of subsidiary#	Place of incorporation/ registration and operations	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company At December 31, 2018 %	2017 %	Principal activities
Indirectly held: – *continued*						
Ningde Huaixiang Funeral Services Co., Ltd^ 寧德市懷祥禮儀服務有限公司	PRC	July 17, 2017	RMB3,000,000	**77**	77	Provision of funeral service
Huaibei Fu Shou Yuan Funeral Services Co., Ltd^ 淮北福壽園禮儀服務有限公司	PRC	October 25, 2017	RMB1,000,000	**100**	100	Provision of funeral service
Lujiang Fu Shou Yuan Funeral Services Co., Ltd^ 盧江福壽園殯葬禮儀服務有限公司	PRC	October 31, 2017	RMB1,000,000	**100**	100	Provision of funeral service
Chaoyang Longshan Fuyuan Cemetery Co., Ltd°^ 朝陽縣龍山福園公墓有限公司	PRC	January 2, 2018	RMB2,000,000	**100**	N/A	Provision of burial service
Helinge'er County Anyou Ecological Memorial Cemetery Co., Ltd°^ 和林格爾縣安佑生態紀念陵園有限責任公司	PRC	November 13, 2007	RMB10,000,000	**100**	N/A	Provision of burial service
Guizhou Tianyuanshan Funeral Service Co., Ltd°^ 貴州天圓山殯儀服務有限公司	PRC	March 27, 2017	RMB40,000,000	**80**	N/A	Provision of burial and funeral service
Xuancheng Mashan Scenic Service Co., Ltd*^ 宣城馬山風景陵園有限公司	PRC	January 5, 2018	RMB40,000,000	**100**	N/A	Provision of burial service
Hangzhou Xiaoshan Funeral Service Center Co., Ltd*^ 杭州蕭山殯儀服務中心有限公司	PRC	April 3, 2018	RMB8,000,000	**55**	N/A	Provision of funeral service
Fushoujia (Shanghai) Industrial Development Co., Ltd*^ 福壽家(上海)實業發展有限公司	PRC	August 7, 2017	RMB30,000,000	**100**	N/A	Provision of funeral service
Ningbo Fenghua Fushouyuan Funeral Service Co., Ltd*^ 寧波奉化福壽園殯葬禮儀服務有限公司	PRC	June 11, 2018	RMB1,000,000	**60**	N/A	Provision of funeral service
Changzhou Jintan Fushouyuan Funeral Service Co., Ltd*^ 常州金壇福壽園禮儀服務有限公司	PRC	October 25, 2018	RMB1,000,000	**80**	N/A	Provision of funeral service
Yanshan County Fushouyuan Funeral Service Co., Ltd*^ 鉛山縣福壽園禮儀服務有限公司	PRC	August 23, 2018	RMB25,000,000	**100**	N/A	Provision of funeral service

43. DETAILS OF SUBSIDIARIES – *continued*

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, 2018.

^ 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, 2018.

Note:

(a) 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.

None of the subsidiaries had issued any debt securities at the end of the year.

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:

	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Hefei Dashushan Co	PRC	**40**	40	**27,486**	25,285	**34,738**	34,452
Nanchang Hongfu	PRC	**49.11**	49.11	**882**	4,141	**76,087**	75,205
Haigang Fu Shou Yuan	PRC	**60**	60	**74,836**	75,590	**130,446**	125,810
Chongqing Baitayuan	PRC	**40**	40	**915**	3,514	**61,623**	60,708
Guanlingshan Cultural Cemetery	PRC	**10**	30	**2,991**	9,768	**36,712**	111,414
Chongqing Xiyuan	PRC	**49**	49	**311**	154	**39,437**	39,126
Individually immaterial subsidiaries with non-controlling interests				**19,848**	14,371	**159,409**	139,626
Total				**127,269**	132,823	**538,452**	586,341

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.

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

Hefei Dashushan Co

	2018	2017
	RMB'000	RMB'000
Current assets	**159,608**	152,427
Non-current assets	**10,568**	9,758
Current liabilities	**55,202**	51,423
Non-current liabilities	**28,129**	24,632
Equity attributable to owners of the Company	**52,107**	51,678
Non-controlling interests	**34,738**	34,452

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

Hefei Dashushan Co — *continued*

	2018 RMB'000	2017 RMB'000
Revenue	**119,421**	116,317
Expenses	**(50,706)**	(53,104)
Profit and total comprehensive income attributable to the owners of the Company	**41,229**	37,928
Profit and total comprehensive income attributable to non-controlling interests	**27,486**	25,285
Profit and total comprehensive income for the year	**68,715**	63,213
Dividends paid to non-controlling interests	**27,200**	22,000
Net cash inflow from operating activities	**72,712**	62,959
Net cash (outflow) inflow from investing activities	**(1,825)**	1,195
Net cash outflow from financing activities	**(68,000)**	(55,000)
Net cash inflow	**2,887**	9,154

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

Nanchang Hongfu

	2018 **RMB'000**	2017 RMB'000
Current assets	**87,251**	132,777
Non-current assets	**179,127**	112,088
Current liabilities	**97,145**	78,848
Non-current liabilities	**14,301**	12,881
Equity attributable to owners of the Company	**78,845**	77,931
Non-controlling interests	**76,087**	75,205

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

Nanchang Hongfu — *continued*

	2018 **RMB'000**	2017 RMB'000
Revenue	**36,169**	30,042
Expenses	**(34,373)**	(21,609)
Profit and total comprehensive income attributable to the owners of the Company	**914**	4,292
Profit and total comprehensive income attributable to non-controlling interests	**882**	4,141
Profit and total comprehensive income for the year	**1,796**	8,433
Net cash (outflow) inflow from operating activities	**(60,882)**	11,498
Net cash inflow (outflow) from investing activities	**52**	(1,561)
Net cash inflow from financing activities	**43,646**	—
Net cash (outflow) inflow	**(17,184)**	9,937

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

Haigang Fu Shou Yuan

	2018	2017
	RMB'000	RMB'000
Current assets	**217,556**	195,318
Non-current assets	**65,039**	76,408
Current liabilities	**47,962**	45,589
Non-current liabilities	**17,224**	16,454
Equity attributable to owners of the Company	**86,963**	83,873
Non-controlling interests	**130,446**	125,810

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

Haigang Fu Shou Yuan — *continued*

	2018 RMB'000	2017 RMB'000
Revenue	**233,739**	215,394
Expenses	**(109,013)**	(89,411)
Profit and total comprehensive income attributable to the owners of the Company	**49,890**	50,393
Profit and total comprehensive income attributable to non-controlling interests	**74,836**	75,590
Profit and total comprehensive income for the year	**124,726**	125,983
Dividends paid to non-controlling interests	**70,200**	57,600
Net cash inflow from operating activities	**140,934**	125,108
Net cash outflow from investing activities	**(54)**	(195)
Net cash outflow from financing activities	**(117,000)**	(96,000)
Net cash inflow	**23,880**	28,913

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

Chongqing Baitayuan

	2018	2017
	RMB'000	RMB'000
Current assets	**29,963**	22,885
Non-current assets	**168,501**	174,759
Current liabilities	**10,522**	12,102
Non-current liabilities	**33,885**	33,772
Equity attributable to owners of the Company	**92,434**	91,062
Non-controlling interests	**61,623**	60,708

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

Chongqing Baitayuan — *continued*

	2018 **RMB'000**	2017 RMB'000
Revenue	**20,079**	28,336
Expenses	**(17,792)**	(19,551)
Profit and total comprehensive income attributable to the owners of the Company	**1,372**	5,271
Profit and total comprehensive income attributable to non-controlling interests	**915**	3,514
Profit and total comprehensive income for the year	**2,287**	8,785
Dividends paid to non-controlling interests	**–**	3,456
Net cash inflow from operating activities	**7,926**	10,861
Net cash outflow from investing activities	**(662)**	(6,421)
Net cash outflow from financing activities	**–**	(8,639)
Net cash inflow (outflow)	**7,264**	(4,199)

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

Guanlingshan Cultural Cemetery

	2018	2017
	RMB'000	RMB'000
Current assets	**74,773**	85,490
Non-current assets	**350,311**	348,968
Current liabilities	**40,224**	46,272
Non-current liabilities	**17,733**	16,805
Equity attributable to owners of the Company	**330,415**	259,967
Non-controlling interests	**36,712**	111,414

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

Guanlingshan Cultural Cemetery — *continued*

	2018 **RMB'000**	2017 RMB'000
Revenue	**120,439**	128,978
Expenses	**(94,273)**	(96,418)
Profit and total comprehensive income attributable to the owners of the Company	**23,175**	22,792
Profit and total comprehensive income attributable to non-controlling interests	**2,991**	9,768
Profit and total comprehensive income for the year	**26,166**	32,560
Dividends paid to non-controlling interests	**9,126**	10,405
Net cash inflow from operating activities	**39,222**	54,935
Net cash outflow from investing activities	**(11,277)**	(11,609)
Net cash outflow from financing activities	**(30,420)**	(34,682)
Net cash (outflow) inflow	**(2,475)**	8,644

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

Chongqing Xiyuan

	2018 **RMB'000**	2017 RMB'000
Current assets	**25,306**	4,974
Non-current assets	**120,185**	102,465
Current liabilities	**63,701**	27,590
Non-current liabilities	**1,306**	—
Equity attributable to owners of the Company	**41,047**	40,723
Non-controlling interests	**39,437**	39,126

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

Chongqing Xiyuan — *continued*

	2018 RMB'000	2017 RMB'000
Revenue	**20,907**	3,677
Expenses	**(20,272)**	(3,362)
Profit and total comprehensive income attributable to the owners of the Company	**324**	161
Profit and total comprehensive income attributable to non-controlling interests	**311**	154
Profit and total comprehensive income for the year	**635**	315
Net cash outflow from operating activities	**(7,106)**	(17,988)
Net cash outflow from investing activities	**(19,763)**	(37,687)
Net cash inflow from investing activities	**45,000**	24,087
Net cash inflow (outflow)	**18,131**	(31,588)

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The statement of financial position of the Company as at December 31, 2018 and 2017 are as follows:

	2018 **RMB'000**	2017 RMB'000
Non-Current Assets		
Interest in subsidiaries	**1**	1
	1	1
Current Assets		
Trade and other receivables	**51**	289
Amount due from subsidiaries	**1,654,838**	1,553,908
Bank balances and cash	**54,194**	65,728
	1,709,083	1,619,925
Current Liabilities		
Trade and other payables	**2,811**	452
Amount due to subsidiaries	**398,259**	336,052
	401,070	336,504
Net Current Assets	**1,308,013**	1,283,421
Total Assets less Current Liabilities	**1,308,014**	1,283,422
Capital and reserves		
Share capital	**134,920**	131,666
Reserves (Note)	**1,173,094**	1,151,756
Total Equity	**1,308,014**	1,283,422

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – *continued*

Note:

	Share premium* RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2017	1,123,394	79,667	74,233	(133,914)	1,143,380
Exercise of stock options	162,483	–	(38,049)	–	124,434
Share-based compensation	–	–	42,538	–	42,538
Loss and total comprehensive expense for the year	–	–	–	(52,061)	(52,061)
Dividends recognized as distributions	(106,535)	–	–	–	(106,535)
At December 31, 2017	1,179,342	79,667	78,722	(185,975)	1,151,756
Exercise of stock options	**183,026**	**–**	**(28,214)**	**–**	**154,812**
Share-based compensation	**–**	**–**	**30,548**	**–**	**30,548**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(34,356)**	**(34,356)**
Dividends recognized as distributions	**(129,666)**	**–**	**–**	**–**	**(129,666)**
At December 31, 2018	**1,232,702**	**79,667**	**81,056**	**(220,331)**	**1,173,094**

* 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 100% equity interest, 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 consolidated financial statements, the creditors of Mr. Liang and the purported creditors of Wuyuan Wanshoushan Cemetery brought a total of 12 lawsuits against Mr. Liang and Wuyuan Wanshoushan Cemetery (the "Proceedings") of which 8 were either settled, subsequently withdrawn or concluded by the Province People's Courts resulting a RMB2.3 million net settlement paid by the Group.

46. CONTINGENT LIABILITIES – *continued*

The total claims on the remaining 4 Proceedings (the "Remaining Proceedings"), where appropriate, including the interest accrued up to the date of these consolidated financial statements, amounting to RMB54 million and the status of which are disclosed as follows:

- 3 claims over RMB47 million awarded in favor of the plaintiffs in the second-instance of the Province People's Courts;
- 1 claim over RMB7 million involved in the legal proceeding and currently pending at the Province High People's Court.

Within these four lawsuits, the first three cases above where the judgement from the People's court were awarded against Wuyuan Wanshoushan Cemetery, while the last one case was awarded for Wuyuan Wanshoushan Cemetery in the second-instance of the People's Court. However, the public security department had filed investigation for suspected crimes on the relevant personnel involved in the lawsuits.

Based on the expert advices of the independent PRC legal counsel, the directors of the Company are of the view that it is probable that the suspected crime will be confirmed, and thus the judgements awarded against Wuyuan Wanshoushan Cemetery will be overturned.

As of the date of these consolidated financial statements, after taking into account of the legal opinions by independent PRC legal counsels 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 resulting 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

Subsequent to December 31, 2018, the Group, together with Yongyin Asset Management Co., Ltd. ("Yongyin") and Shanghai Linxin Asset Management Co., Ltd. ("Linxin") plan to set up a Limited partnership, and has subscribed for the relevant rights and interests to conclude a limited partnership agreement. According to the limited partnership agreement, the total capital commitment of the limited partnership is RMB800,200,000, and the Group, Yongyin and Linxin has committed to invest RMB399,200,000, RMB400,000,000 and RMB1,000,000 respectively. The main business of the limited partnership is to invest and acquire China's high-quality cemetery assets and related service providers in the form of equity investment.

On December 26, 2018, the Group entered into an agreement to acquire 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd (湖北天聖公墓有限公司, "Hubei Tiansheng") by phases with a total consideration of RMB40 million. Hubei Tiansheng is mainly engaged in burial service. The acquisition has been completed in January 2019.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	795,092	1,107,960	1,267,655	1,477,208	**1,651,299**
Operating expenditures					
Staff costs	(201,809)	(257,752)	(301,092)	(354,356)	**(401,192)**
Construction costs	(35,966)	(62,099)	(61,169)	(54,091)	**(70,137)**
Consumed materials and goods	(74,382)	(109,411)	(107,603)	(109,148)	**(117,113)**
Outsourced service costs	(25,899)	(44,477)	(48,297)	(54,738)	**(55,002)**
Marketing and sales channel costs	(54,794)	(59,873)	(62,754)	(61,758)	**(43,876)**
Depreciation and amortization	(32,415)	(55,624)	(66,583)	(74,697)	**(92,730)**
Other general operating expenditures	(82,423)	(127,283)	(123,410)	(119,178)	**(137,717)**
Inventory changes	(645)	12,781	9,214	(8,076)	**(10,638)**
Profit from operations	286,759	404,222	505,961	641,166	**722,894**
Other income, gains and losses	58,128	63,183	58,823	58,805	**60,172**
Share of profit of a joint venture	–	–	485	398	**–**
Finance costs	(3,679)	(7,799)	(8,256)	(15,585)	**(8,293)**
Profit before taxation	341,208	459,606	557,013	684,784	**774,773**
Income tax expense	(56,149)	(94,437)	(108,508)	(134,611)	**(159,140)**
Profit and total comprehensive income for the year	285,059	365,169	448,505	550,173	**615,633**
Profit and total comprehensive income for the year attributable to:					
Owners of the company	230,372	284,444	338,974	417,350	**488,364**
Non-controlling interests	54,687	80,725	109,531	132,823	**127,269**
	285,059	365,169	448,505	550,173	**615,633**
	RMB cents	RMB cents	RMB cents	RMB cents	**RMB cents**
Earnings per share					
Basic	11.1	13.7	16.2	19.6	**22.2**
Diluted	10.9	13.3	15.7	19.3	**21.9**

FINANCIAL SUMMARY

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total Assets	2,935,120	3,563,565	3,936,218	4,662,035	**5,237,704**
Total Liabilities	(722,808)	(913,796)	(907,178)	(1,057,531)	**(1,186,821)**
	2,212,312	2,649,769	3,029,040	3,604,504	**4,050,883**
Equity attributable to owners of the company	1,983,273	2,235,929	2,536,180	3,018,163	**3,512,431**
Non-controlling interests	229,039	413,840	492,860	586,341	**538,452**
	2,212,312	2,649,769	3,029,040	3,604,504	**4,050,883**

DEFINITIONS AND GLOSSARY

"AGM"	the annual general meeting of the Company to be held on May 20, 2019
"Annual Report"	this annual report dated March 15, 2019 of the Company
"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
"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)
"ASP"	Average unit selling price
"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
"Chaoyang Longshan Cemetery"	a cemetery in Chaoyang County of Liaoning Province and operated by Chaoyang Longshan Fuyuan Cemetery Co., Ltd.* (朝陽縣龍山福園公墓有限公司), 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

DEFINITIONS AND GLOSSARY

"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
"Companies Law"	the Companies Law (as revised) of the Cayman Islands (as amended, supplemented or otherwise modified from time to time)
"Company", "our Company", "Fu Shou Yuan"	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
"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" or "IPO"	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 Mr. Lu Hesheng (陸鶴生), the non-executive Director
"Group", "our Group", "us", "we" or "Fu Shou Yuan Group"	the Company and its subsidiaries

DEFINITIONS AND GLOSSARY

"Guangxi Huazuyuan Cemetery"	a cemetery in Fangchenggang City of Guangxi Zhuang Autonomous Region and operated by Guangxi Huazuyuan Investment Co., Ltd.* (廣西華祖園投資有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since November 2017
"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
"Guizhou Tianyuanshan"	Guizhou Tianyuanshan Funeral Service Co., Ltd.* (貴州天圓山殯儀服務有限公司), 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
"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
"Helinge'er Anyou Cemetery"	a cemetery in Hohhot City of the Inner Mongolia Autonomous Region and operated by Helingeer County Anyou Ecological Memorial Cemetery Co., Ltd.* (和林格爾縣安佑生態紀念陵園有限責任公司), a limited company established under the laws of the PRC and a subsidiary of the Company
"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
"Hubei Tianxian Cemetery"	a cemetery in Wuhan of Hubei Province, a limited company established under the laws of the PRC and became a subsidiary of the Company since January 2019
"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
"Last Year"	the year ended December 31, 2017
"Linxin"	Shanghai Linxin Asset Management Co., Ltd. (上海臨信資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會)
"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

DEFINITIONS AND GLOSSARY

"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
"NEEQ"	National Equities Exchange and Quotations
"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
"Perfect Score"	Perfect Score Group Limited, a limited liability company incorporated in BVI on June 18, 2015, one of the Company's Shareholders and a direct wholly-owned subsidiary of Zhongfu
"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

DEFINITIONS AND GLOSSARY

"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
"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$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on December 3, 2013
"Shareholder(s)"	holder(s) of the Share(s)
"sq.m."	square meters
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs (as amended, supplemented or otherwise modified from time to time)
"Temshine"	Beijing Temshine Cemetery Design Group Ltd.* (北京天泉佳境陵園建築設計有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company since August 2017
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" 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
"Xiyuan Fu Shou Yuan"	Chongqing Xiyuan Fu Shou Yuan Industrial Development Co., Ltd.* (重慶西苑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

"Year"	year ended December 31, 2018
"Yongying"	Yongying Asset Management Co., Ltd.* (永贏資產管理有限公司), a company established in the PRC with limited liability and a private investment fund manager approved by the Assets Management Association of China* (中國證券投資基金業協會), the investment made by Yongying in the Limited Partnership for and on behalf of Yongying Asset — Yonghui Phase II special Asset Management Plan (永贏資產 — 甬匯二期專項資產管理計劃)
"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 Group Limited* (中國中福實業集團有限公司), formerly known as China Zhongfu Industrial Co., Ltd.* (中國中福實業有限公司), 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.