



2020

福壽園國際集團有限公司 ANNUAL REPORT

FU SHOU YUAN INTERNATIONAL GROUP LIMITED
Stock code: 01448



福壽園國際集團
FU SHOU YUAN INTERNATIONAL GROUP
01448.HK

Incorporated in the Cayman Islands with limited liability

CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	8
Profiles of Directors and Senior Management	26
Directors' Report	32
Corporate Governance Report	47
Independent Auditor's Report	58
Consolidated Financial Statements	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	63
Consolidated Statement of Financial Position	64
Consolidated Statement of Changes in Equity	66
Consolidated Statement of Cash Flows	67
Notes to the Consolidated Financial Statements	70
Financial Summary	180
Definitions and Glossary	182

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. Lu Hesheng

Mr. Huang James Chih-cheng

Mr. Ma Xiang

(resigned with effect from March 24, 2021)

Ms. Zhou Lijie

(appointed with effect from March 24, 2021)

Independent Non-executive Directors

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

Ms. Liang Yanjun

Mr. Chen Xin

(appointed with effect from January 21, 2021)

AUDIT COMMITTEE

Mr. Ho Man (*Chairman*)

Mr. Huang James Chih-cheng

Mr. Luo Zhuping

Mr. Chen Xin

(appointed with effect from January 21, 2021)

NOMINATION COMMITTEE

Mr. Bai Xiaojiang (*Chairman*)

Mr. Wang Jisheng

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

REMUNERATION COMMITTEE

Mr. Luo Zhuping (*Chairman*)

Mr. Tan Leon Li-an

Mr. Chen Qunlin

COMPLIANCE COMMITTEE

Ms. Liang Yanjun (*Chairman*)

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

COMPANY SECRETARY

Ms. Hu Yi

AUTHORIZED REPRESENTATIVES

Mr. Bai Xiaojiang

Ms. Hu Yi

REGISTERED OFFICE

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CORPORATE INFORMATION

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
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STOCK CODE

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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 2020 annual results of the Group.

In 2020, the world experienced unprecedented changes amid rising geopolitical tensions and the outbreak of COVID-19 pandemic, which significantly impacted people's livelihood, substantially slowed down the economic activities and weighed on the growth momentum. With the effective implementation of measures to fight COVID-19, China's economic operation and macroeconomic policies gradually returned to normal with remarkable results in stabilizing employment and protecting people's livelihoods, making China a major economy that recorded positive economic growth despite all the adversities.

In the fight against the COVID-19 pandemic, Fu Shou Yuan Group adhered to its corporate spirit of "innovation, truth-seeking, peace of mind, and sincerity" and built on its strengths to launch the "Fu Shou Cloud" platform which utilizes big data, delicacy management and cloud computing technologies to provide consumers with more convenient and efficient services. The Group turned the impact from the COVID-19 pandemic into a development opportunity by reflecting on the situation and moving forward with determination and solidarity, thereby supporting everyone through such a challenging and extraordinary year.

In the face of dramatic changes in the social environment, Fu Shou Yuan turned crisis into opportunity by implementing various measures to continuously serve the general public and maintain steady growth in business performance. During the Year, the Group recorded revenue of RMB1,892.5 million, representing an increase of 2.3% compared with 2019. Net profit was RMB757.3 million, representing an increase of 3.0% compared with 2019, of which profit and total comprehensive income attributable to owners was RMB620.1 million, representing an increase of 7.2% compared with 2019. The Board proposes a final dividend of HK5.53 cents per Share for 2020 to the Shareholders. Together with the interim dividend of HK3.28 cents per Share distributed during the Year, the total dividend for the full year of 2020 is HK8.81 cents per Share, which is in line with the Group's committed dividend policy to reward investors for their trust and support.

The traditional funeral rituals are embedded with the Confucian virtue of "filial piety", which is an important foundation for the existence and development of the death care service industry. Under the influence of the "filial piety" culture and with the prosperous and growing economy and society and the rapidly aging population, the growth potential of death care service industry has been increasing sharply, implying vast opportunities for the country to comfortably grow into a globally leading death care service market where the Group is well established.

Since its establishment, the Group has been committed to creating a new culture in China's modern death care service industry and promoting the development of the industry, and also actively seeks breakthroughs in terms of concept, products, services, culture, art and technology. During the Year, by adhering to the idea of "running a good enterprise and changing the entire industry", the Group continued to develop its core business and expand its scope of services. At present, the Group has established its presence across burial services, funeral services, equipment and supplies, landscape design, pre-need services, "Death Care + Internet" and life education. The Group's business has been expanded to more than 40 cities in 18 provinces, autonomous regions and municipalities in China including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Jilin, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia, Hubei, Gansu and Heilongjiang.

CHAIRMAN'S STATEMENT

During the Year, to prevent and control the COVID-19 pandemic and meet people's demand for remote tomb-sweeping, the Group launched the "Fu Shou Cloud" platform and "Online Tomb-Sweeping" and "Online Worship" services. By integrating different services through internet technology, the Group recreated the worshipping and tomb-sweeping scenes and services on the "cloud", which connected the online space and the offline environment and services, thereby breaking the time boundary and geographical restrictions, so that our customers can be on the scene without leaving home to pay their tributes to the loved ones amid the COVID-19 pandemic. In addition, by optimizing and improving the traditional rituals, social management problems caused by huge crowds gathering at cemeteries can be avoided. Customers can submit requests for tomb-sweeping online, forward the worship applications and make self-service online arrangement to participate in online tomb-sweeping and worship activities in real time and express their thoughts and remembrance of their loved ones in a better way. In the future, the Group will gradually establish a digital family service system for its customers, thereby leading the innovative development of the industry.

The Group has been committed to fulfilling the demand for a better life of "making people pass away respectfully with relief and dignity", and strives to facilitate the development of integrated funeral and burial service and government-enterprise collaboration projects. In January 2020, the Group entered into the contract for the funeral service project in Changfeng County, Hefei, which is another government-enterprise collaboration funeral project of the Group in Anhui Province following the Hefei Funeral Parlor, Xuancheng Mashan Funeral Parlor, Lujiang Funeral Parlor, Huaibei Funeral Parlor and Shucheng County Funeral Parlor. In June 2020, the Group entered into the contract for the Fuze Funeral and Burial project (福澤殯葬項目) located in Jinsha County, which is another integrated funeral and burial service project of the Group following the Tianyuanshan project in Guizhou Province. It will further enhance the Group's comprehensive service capability in said province. In September 2020, the Group entered into the contract for the funeral service project in Ruichang, Jiangxi Province. Pursuant to the contract, Fu Shou Yuan will provide livelihood services to the public in Ruichang with new funeral concept, advance management model and high-quality service standards and facilitate the reform of funeral industry in Ruichang with new momentum. In December 2020, the Group entered into a contract with the Civil Affairs Bureau and the Municipal Funeral Service Center of Chaohu City, Anhui Province for the Chaohu Funeral Parlor Selective Service Project. Leveraging the extensive management experience and business philosophy of Fu Shou Yuan, both parties will fully utilize their respective advantages based on integration of resources and cooperation for mutual benefits.

Fu Shou Yuan continues to innovate its services, improve the utilization of resources and enhance the level and standard of strategic cooperation. During the Year, the Group reached strategic cooperation with Aeon Life Insurance Company, Ltd. to launch the "Green Life Service", forming a strategic layout of "dual drivers" of insurance products and death care services. The Group launched the "Fu Shou Life" Group Life Insurance, an insurance-based pre-need contract, with the aim of providing extensive, transparent, standardized and quality one-stop pre-need and funeral services to various consumers, which is an important initiative of cross-sector innovation in the insurance and death care service industries. In addition, the Group has been vigorously expanding its pre-need contract services in recent years, which are being recognized, supported and increasingly sought after by governments of various levels and elderly service centres, and have become the important strategic pivots of the Group. Pre-need services can secure customers in advance and bring about a stable source of customers to funeral and burial segments.

CHAIRMAN'S STATEMENT

The Group actively expands its business presence and improves its strategic layout. In July 2020, the Group entered into a contract to acquire the entire equity interest in Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司). The acquisition has been completed and as the Group's first step of expansion in Heilongjiang Province, such contracted project enables the Group to establish a strong position in terms of market services with extensive geographical advantage in Northeastern China, allowing the Group to accelerate its plan to deepen its presence in major provinces and province capitals, which will in turn create synergy effect and radiation of services. In October 2020, Fu Shou Yuan reached a strategic cooperation to fully participate in the reform and construction of funeral industry in Guangxi Province. The Group and China Zhongfu Industrial Group Limited* (中國中福實業集團有限公司) intend to make investment of approximately RMB10 billion to build a number of funeral service facilities in various locations in Guangxi and create a high-standard and high-quality humanist memorial park to facilitate environmental protection and urban construction and meet the growing demand for multi-level and diversified services.

During the Year, the Group increased its efforts in improving its industrial chain services and expanding its regional presence, and successfully reached strategic cooperation with banking institutions, which provided solid financial support and extensive development space for the Group to enhance the quality of life services, expand its service scope, extend its industrial chain and consolidate its advantageous resources. In April 2020, the Group and China Construction Bank, Shanghai Branch reached strategic cooperation, pursuant to which, China Construction Bank, Shanghai Branch granted an intentional credit line of RMB5 billion to the Group and will support Fu Shou Yuan in respect of fund settlement, credit line, investment and mergers and acquisitions. In June 2020, the Group and Shanghai Rural Commercial Bank Co., Ltd. concluded a comprehensive strategic cooperation agreement, pursuant to which, Shanghai Rural Commercial Bank Co., Ltd. will provide intentional borrowing facilities equivalent to RMB5 billion to the Group and its affiliated companies as well as cash management, supply chain financing and investment banking to support Fu Shou Yuan in building itself into an international death care service enterprise.

Fu Shou Yuan has always been dedicated to providing livelihood services and helping the impoverished and underprivileged. As a leading service provider in China's death care industry, Fu Shou Yuan has been continuously providing quality livelihood services over the past 26 years and makes positive contributions to social welfare and charity, covering various fields such as poverty relief, mental support, education sponsorship, life education and environmental protection, and benefiting over 10 million people in more than 40 cities in 18 provinces (regions and municipalities) across the country. In March 2020, in view of the demand for community psychological assistance during and after the COVID-19 pandemic, the Group initiated a charity plan for the distribution of "Fuyuan Safety Protection Package" to pool the resources of professional psychological assistance and volunteers to provide voluntary caring services about spiritual comfort, sadness counselling and pre-need planning to the elderly in difficulty. In September 2020, Fu Shou Yuan Public Welfare Foundation participated in the Shanghai Public Welfare Partnership Day for the first time and introduced its "Warm Winter Park" welfare burial project for the deceased elderly living alone or widowed and extremely poor families as well as the "Pre-Planning Consultancy" public welfare contract security services to meet the demands of the elderly in the community, who is living alone, or loses his or her only child, or is exceptionally impoverished, by providing high-quality charitable palliative care and death care services, thereby establishing a livelihood security system for pre-planning, charitable palliative care and death care services and effectively responding to the palliative care problems of the people in difficulties. In the same month, the Group joined hands with the Shanghai Anhui Economic and Cultural Association* (上海安徽經濟文化促進會) to carry out education sponsorship activity in Huoqiu County, Liu'an City, Anhui Province with focus on facility construction and development of the schools affected by the flood.

CHAIRMAN'S STATEMENT

Over the years, the Group has devoted itself to various social welfare projects and actively fulfilled its social responsibility, and its efforts and contribution have been affirmed and recognized by all sectors of society and the industry, winning numerous awards. In April 2020, at the 11th China Talent Development Awards, the Group's "Mainboard Talent Training Program — Manager Training Camp" won the award of "Best Training Program". In May 2020, Shanghai Fu Shou Yuan won the "2019 Outstanding Contribution Award of Shanghai Services Federation". In June 2020, with its devotion in the life education undertaking and the delivery and promotion of the right sense of life and death to the public over the years, the Group was awarded one of the Top 10 Charity Projects of the Year in the China Charity Ranking 2020 for its "Non-profit Public Awareness Program of Life Education (Thanatological Education)". In August 2020, the Group was awarded as the "2020 Most Innovative Enterprise" by the China Finance Summit. In September 2020, Mr. Wang Jisheng, the Vice President of China Funeral Association and the Executive Director and President of Fu Shou Yuan Group, was appointed as a funeral management expert of the first session of the Expert Panel of Social Affairs under the Ministry of Civil Affairs of the PRC. In November 2020, Ms. Yi Hua, the Director of the Experts Committee of China Funeral Association and Chief Brand Officer of Fu Shou Yuan Group, was awarded the title of "2019 National March 8th Red Flag Bearer". In December 2020, the Fu Shou Cloud technology won the award of "Innovation Promoter of the Year" at the 2020 International Sci-Tech Innovation Festival.

In the past year, Fu Shou Yuan Group fought through adversities together with the general public and forged ahead under the philosophy of honoring life, respecting life and caring for life. Looking forward, through continuous service innovation and by upholding the principle of "human oriented and culture rooted", and the Group will strive to provide high-quality life services to help people pursue a better future, and devote unremitting efforts in building a closer community of life and positioning ourselves to deliver better returns to our Shareholders.

By order of the Board

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 PRC 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 calls for increases in not only the quantity, but also the quality, variety and diversity of the death care services. All these drivers make the death care service industry in the PRC less susceptible to the economic cycle and is one of the industries with steady growth rate, and its future growth will accelerate.

In 2020, the death care industry in the PRC was actively creating new ways of industry governance and humanities memorials suitable for the COVID-19 pandemic period, death care industry reforms continue to make progress, promoting a sound basic death care public service system, and actively responding to the call for public welfare, green ecology, and changing customs. In order to quickly implement the prevention and control requirements in relation to the pandemic, the Ministry of Civil Affairs issued a series of emergency notices such as “Guidelines for the Disposal of Bodies of COVID-19 Patients (Trial)” (《新型冠状病毒感染的肺炎患者遺體處置工作指引(試行)》), while China Funeral Association also issued notices including “Several Opinions on Proper Disposal of Bodies of Patients with COVID-19 Infection and Prevention and Control of the Epidemic” (《關於妥善做好新型冠状病毒感染的肺炎患者遺體處置及疫情防控工作的幾點意見》), and “Notice on the Issuance of the Opinions on Enhancing the Safety and Protection of Member Units and the Orderly Launch of Services during the Epidemic” (《關於印發《關於加強會員單位疫情期間安全防護及有序開展服務工作的意見》的通知》), requiring death care service institutions in the PRC to further strengthen the prevention and control measures and service protection work. At the same time, during the COVID-19 outbreak, the focus was on building a solid foundation and innovating ways to reasonably expand the scope of services. On April 4, 2020, the Qingming Festival, a nationwide mourning event was held in the name of the nation to mourn the martyrs and deceased compatriots due to COVID-19, fully demonstrating the noble concept of “people first, life first”.

Meanwhile, the reform of management and service is also steadily advancing. While facilitating the participation of social capital, building cemeteries and funeral facilities to increase the provision of death care services have become important measures in the transformation of the death care segment. A thesis titled “Certain Suggestions on The Prominent Problems in and the Deepening Reforms of the Death Care Services” (《殯葬領域突出問題與深化改革的若干建議》) published in 2019 in volume 12 of the “Social Governance Review”, a journal edited by Beijing Normal University, has received extensive attention. The article guaranteed favorable opportunities to the death care service industry and its market in various respects, including: encouraging the development of a top-level design conducive to service providers which incorporates the concept of “making people pass away respectfully” into the proposal, elevating the PRC government’s leadership towards death care services to a new level; suggesting enhancement of the cooperation with social capital, so as to promote service quality through competition; regarding the basic services that state-owned corporations could hardly provide, it suggested promoting collaboration between private and state-owned corporations as a possible solution; the article also proposed to incorporate the development of cemetery facilities into the National Spatial Planning. The National Civil Affairs Work Video Conference held in December 2020 put forward the requirements for 2021 to improve the basic death care service system and overcome the shortcomings of the facilities. All the abovementioned considerations and initiatives will be conducive to the Group’s further development as a leading corporation in the entire industry chain of death care services.

MANAGEMENT DISCUSSION AND ANALYSIS

The Regulations on Funeral Management (Revised) (《殯葬管理條例(修訂)》) is listed in the 2020 Legislative Work Plan of Chinese Ministry of Civil Affairs (《民政部2020年立法工作計劃》) as continuing to cooperate with the Ministry of Justice for review. 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 believes that 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 believes that the aforementioned 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 accordance with the requirements of the Ministry of Civil Affairs to advance the “Internet + Death Care Services”, the informatization construction was accelerated during the Year. During the COVID-19 outbreak, the China Funeral Association called for and advocated the public to adopt technological means, such as online sacrifices, online reservations, and valet ceremony. The Group also vigorously promoted the construction of informatization and continued to launch a well-functioned and new integrated “Death Care Services+ Internet” online system namely “Fu Shou Cloud”, internally improving the synergy of all levels and units inside the Group and externally establishing and consolidating the on-line/off-line connection between server side and client side.

Regarding the education sector, in October 2019, the Ministry of Education of the PRC included the subject of “Burial Service and Cemetery Management” in the catalogue of “General College and Higher Vocational Education Specialties” for the first time, stressing the delicacy and diversified cultivation of funeral talents. The Group will also include education and training as a pioneering, fundamental and strategic project for the healthy and sustainable development of the Group, and will further cooperate with domestic and foreign funeral colleges and universities in depth. The Group will also double its efforts to cultivate a team of modern enterprise management-oriented and humanity skill service-oriented talents to form a reasonable talent echelon, so as to consolidate the existing development achievements and provide intellectual support for the long-term sustainable and healthy development of the Group.

BUSINESS COMMENTARY

During the Year, despite the occurrence of a worldwide public health emergency, after ensuring the safety for our employees and customers, the Group, as always, continued to consolidate and explore our brand value, put efforts in enhancing the landscaping, funeral facilities and cultural setting of existing cemeteries, improve service quality, and offer innovative, diversified and different services and products, continue to make structural adjustments to our business structure, products and services, and sales channels, and continue to optimize the allocation of resources.

MANAGEMENT DISCUSSION AND ANALYSIS

Striving to transform cemeteries into urban cultural parks, on one hand, we continued to optimize our product structure, increasing the proportion of land-saving products and artistic cemeteries while lowering that of traditional cemeteries so as to improve the effectiveness of land utilization. On the other hand, we continued to innovate and increase the application of new materials, new technologies and new techniques to our products. While creating and enhancing the environment of the park, we continue to seamlessly implant ecological concepts, embed humanity elements and create a historical atmosphere, injecting more vitality and inspiration into the traditional cemetery, presenting beauty with the environment, glory with culture and harmony with ecology. The beautiful cemeteries meticulously constructed by us and the customized services that we strive to provide continued to gain widespread recognition from our customers. In relation to the funeral services business, we have increased innovation, introduced and deepened the provision of different kinds of products and services such as body SPA, mid-range and high-end paper coffins and cosmetic services to meet the differentiated and diversified needs of different customer groups. This has enhanced customer consumption experience and opened up new profit growth points for the traditional funeral business.

During the Year, in the context of the accelerated internetization of the death care service industry due to the COVID-19 outbreak, the Group accelerated the launch of the “Fu Shou Cloud” series of cloud products and services and optimized the construction of the Group’s information system. In terms of cloud products and services, firstly, we are expanding new Internet marketing models, creating diversified customer acquisition paths such as data management platform, website search engine optimization and search engine marketing, and new media operation to cover individual customers; we plan to target potential users with cloud family products and extend services. Secondly, we are also focusing on the accelerated application and upgrade of cloud services. During the Qingming holiday, online tomb-sweeping and cloud streaming were widely utilized, while cloud exhibitions provided services during the 2020 Cemetery Work Exchange Meeting held by China Funeral Association. The “Fu Shou Cloud Memorial Platform”, which integrates the cloud photo album and online obituaries, is also under active construction, and will be further explored in the future to develop a series of services that can serve both business customers and individual customers in a comprehensive manner, such as cloud blessing and cloud family. In the construction of the Group-wide information system, the Group has constructed a management framework based on “areas, business segments and functions”, built a unified control framework based on process management, built and launched a mobile processing project for cemetery business and funeral business. Through digitized internet technology, we empowered management and business, improved operational efficiency and control, stimulated business operation and service capability, and built a healthy and dynamic organization that can gather strength and respond quickly.

MANAGEMENT DISCUSSION AND ANALYSIS

As an important strategic pivot of the Group, our provision of pre-need services enabled the Group to secure customers in advance and to bring about a stable source of customers to our funeral and burial segments. It is proven that under the backdrop of aging population with fewer births, pre-need services are attracting more customers who would like to arrange their funeral matters in advance by themselves, and are being recognized, supported and increasingly sought after by local governments of various levels and elderly service centres. Although the promotion of the pre-need services to customers was slightly affected by the COVID-19 outbreak, 5,906 contracts were signed for the Year, representing an increase of 21.2% over the previous year (Last year: 4,873 contracts), with a contract value of approximately RMB21 million. Meanwhile, the Group was able to supply pre-need services in 21 cities from 10 different provinces (the previous year: 18 cities), and we won over 40 batches of collective procurement by government institutions at all levels as well as social organizations. We will actively explore more social value and business value of pre-need services. From sales channel aspect, we also worked with endowment, insurance and trust institutions and designed a set of promotion routine and dialogue context which is practical for communicating with customers about pre-need services under non-funeral scenes. We will design and develop innovative products that meet diversified customer needs and one-stop services to achieve a new high in the strategic development of pre-need services.

The Group's environmentally-friendly cremation machine business integrates R&D, design, in-house production, comprehensive support and after-sales service to produce smart and environmentally-friendly cremation equipment and exhaust gas purification treatment systems. During the Year, we focused on the innovation of environmentally-friendly products, enhancing and enriching the product quality and functions of our "Jiesheng" environmentally-friendly cremation equipment and exhaust gas purification system through technology R&D and upgrade, leading the industry with high-quality products. On the other hand, we worked hard to expand the market, using advanced and environmentally-friendly products to change the relatively backward and environmentally unfriendly status of the funeral equipment industry. During the Year, the Group sold and installed 19 sets of smart and environmentally-friendly cremation machines (within the Group: 11 sets, outside the Group: 8 sets) and achieved operating revenue of RMB50.1 million for the Year. The cremation machines installed and in operation are all operating smoothly with exhaust gases complying with environmental standards. Currently, the cremation machines contracted but not yet delivered amount to 14 sets. In 2021, the Group will deepen our presence in key target markets by increasing investment in the sales and system optimization of environmentally friendly cremation machines, so as to consistently refine our products and promote market competitiveness. We expect that the smart and environmentally friendly cremation machine business will bring about considerable contribution to the Group's revenue in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

In order to further expand our cemetery and funeral business, the Group vigorously pursued brand new projects and acquired mature ones during the Year, continuing to penetrate the market and deepen our presence. In the cemetery segment, in August 2020, we completed the acquisition of the entire equity interest in Harbin Mingxiyuan Cemetery Co., Ltd.* (哈爾濱明西園公墓有限責任公司) and were able to, for the first time, establish our foothold in Heilongjiang Province. Being another project located at a prime location in Northeast China, it marked a milestone in the Group's expansion plan into major provinces and provincial capitals. For more details, please refer the Company's announcement dated July 31, 2020. In November 2020, we completed the acquisition of 95% equity interest in Hailin Jinggang Industrial Co., Ltd.* (甘肅海林嶧港實業有限公司) located in Lanzhou City of Gansu Province, marking the official expansion of our business into Gansu Province. In the same month, we entered into a cooperation framework agreement with the Civil Affairs Bureau of Guangxi Zhuang Autonomous Region in respect of the project of "Memorial Park of Life and Heritage (生命人文紀念園), comprehensively assisting the funeral reform, facility construction and service quality improvement in Guangxi. The project will be full steam ahead in the coming years with concrete implementation plan and be completed step by step. As of December 31, 2020, the Group has 30 cemeteries in operation (including 2 under custody operation) and 3 cemeteries under preparation or construction. As for the funeral segment, in June 2020, we completed the acquisition of 80% equity interest in Jinsha Fuze (金沙縣福澤殯葬有限責任公司) located in Jinsha County of Guizhou Province, which is the Group's latest integrated cemetery project in addition to the Tianyuanshan Project in the said province. The project is currently under partial renovation and operation following our new direction. In September 2020, we entered into a contract with the Civil Affairs Bureau of Ruichang City, Jiangxi Province in respect of a selective funeral parlor service project. In November 2020, Binzhou Fu Shou Yuan Industrial Co., Ltd.* (濱州福壽園實業有限公司) was established as a wholly-owned subsidiary to organise the construction of said integrated cemetery project in Binzhou in collaboration with the Binzhou Municipal Government. In December 2020, we entered into a contract with the Civil Affairs Bureau and the Municipal Funeral Service Center of Chaohu City, Anhui Province in respect of a selective funeral parlor service project. As of December 31, 2020, the Group has 28 funeral facilities in operation and 4 funeral parlors under construction. In addition, during the Year, we were once again awarded the tender for the socialized civil funeral service project in Binjiang District, Hangzhou City, as well as the three custody projects of charity columbarium in Jiangbei District, Nanjing City. These new government-enterprise cooperation projects will further improve the synergy with other local service projects and enhance our comprehensive service capability. To date, our footprint covers 45 cities in 18 provinces, autonomous regions and municipalities in the PRC, including Shanghai, Henan, Chongqing, Anhui, Shandong, Liaoning, Jilin, Heilongjiang, Fujian, Zhejiang, Jiangxi, Jiangsu, Guangxi, Beijing, Guizhou, Inner Mongolia, Gansu and Hubei. At the same time, we have enhanced the post-investment management of our projects and set up a special team to conduct comprehensive evaluations on the newly acquired or custody projects, based on the criteria of "idea oriented", "standards oriented" and "management oriented" as well as the expected outcome of the projects, allowing the new investment projects to achieve the investment plan, cultural implantation and control expectations promptly. Through these measures, the Group is able to accelerate the optimization and upgrade of its burial and funeral facilities as well as to explore innovative products and services, thus contributing to its overall development.

During the Year, we have kept up our efforts to enhance team building, improve operation structure, promote standardized procedures and strengthen system construction. We continued to constantly intensify comprehensive budget management and internal control to promote financial structure optimization.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees are our most valuable resource. Adhering to Fu Shou Yuan's business philosophy, our employees endeavor to cultivate their personal abilities and expand their international visions, striving to provide the best quality products and services to our customers. The Group attaches great importance to the development of our talents, we encourage "Innovation" and "Craftsmanship", emphasizing employee inspiration by implementing an internally fair and externally competitive salary system, as well as establishing a unified three-tier management framework and a hierarchical evaluation system. The Group arranges routine external studies and expeditions for our talents, which introduce and explain international advanced funeral and burial concepts to them. The Life-Service Academy of the Group is positioned itself as "the planner of talent cultivation, the promoter of innovation management, the disseminator of enterprise culture, and the manager of industry knowledge" in a bid to realize "strategic support, cultural inheritance, potential development, talent cultivation, resource integration and innovation development", through which it can gain a foothold in the market, build the brand, lead the industry, serve the community, and achieve its personal goal of "significant improvement of integrated capability and scientific career planning", which may form a new pattern of education and training with the characteristics of Fu Shou Yuan. We operate as a service-oriented entity and provide precise training for all of our staff, with a focus on the new requirements of the Group's development for talent cultivation. Our priority is to cultivate high-level talents and skilled personnel by providing rotational training to our cadres and employees in the forms of study classes, training classes and seminars, thoroughly promoting education and training, and developing a new layout for talent cultivation. This can ensure the availability of talents and intellectual support for the development of our Group, accelerate talent cultivation and build a first-class team to enhance the Group's core competitiveness and social sustainability. Meanwhile, the Life-Service Academy of the Group conducts research on industrial development to provide solutions and decision support for new conditions and challenges that arise in the development of the Group.

During the Year, the cultural and spiritual core of Fu Shou Yuan persisted in our operation. We continued to integrate the resources of the Group, the industry and various parties, coordinated relevant policy research, information dissemination, mechanism construction and subject surveys, and enhanced the soft power internally and optimized the soft environment externally in terms of the deepening of life education, the integration of public welfare and cultural undertakings, and the integration of government media public relations. We comprehensively rationalized the cultural connotation of our brand and remained robust during the dreary pandemic times. Themes such as online tomb-sweeping and spiritual vaccine became the mainstream of domestic and international media communications, with approximately twenty four thousand news articles and approximately twelve thousand new media communications, a surge of 25% and 150% year-on-year, respectively. In the face of the COVID-19 outbreak, Shanghai Fu Shou Yuan Public Welfare Foundation made every endeavour on target poverty alleviation and pandemic control and prevention, and participated in the Shanghai Charity Partners' Day for the first time, which received much attention and praise from the public. Fu Shou Yuan was awarded one of the Top 10 Charity Projects of the Year in the China Charity Ranking for its "Non-profit Public Awareness Program of Life Education (Thanatological Education)". In addition, a total of 13 employees from different regions of the Group were selected to represent their respective provinces (Autonomous Administrative Region and Municipality) to participate in the Cemetery Administrator Career Competition at the 10th National Civil Affairs Professional Skill Competition. They won two first prizes, four second prizes and four third prizes in total, of which one of the Group's employees was awarded the first place in the total score and recognized as one of the "National Technical Experts". The achievement of these honors fully demonstrates the comprehensive service capability of Fu Shou Yuan.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this Annual Report, the Company does not have other future plans for material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

In view of the above, despite the impacts of the COVID-19 outbreak in the Year, we managed to achieve a satisfactory growth during the Year with the efforts made by all of us in the Group. The total revenue of the Group amounted to RMB1,892.5 million, representing an increase of approximately 2.3% as compared to that of Last Year. Profit and comprehensive income attributable to the owners of the Company amounted to an aggregate of RMB620.1 million, representing an increase of approximately 7.2% as compared to that of Last Year.

REVENUE

During the Year, our revenue increased by approximately RMB42.0 million or 2.3% to RMB1,892.5 million from RMB1,850.6 million of Last Year. We derive our revenue primarily from three business segments: burial services, funeral services and other services. The following table sets forth our revenue by segment for the Year:

	2020		2019	
	Revenue (RMB'000)	%	Revenue (RMB'000)	%
Burial services	1,579,143	83.4%	1,551,394	83.8%
Funeral services	252,938	13.4%	256,928	13.9%
Other services	84,072	4.4%	53,216	2.9%
Inter-segment elimination	(23,616)	(1.2%)	(10,964)	(0.6%)
Total	1,892,537	100.0%	1,850,574	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:

	2020		2019	
	No. of burial plots	Revenue (RMB'000)	No. of burial plots	Revenue (RMB'000)
Sale of burial plot services				
Ordinary business plots	13,083	1,408,456	13,539	1,388,438
Public welfare plots and tomb relocation	1,310	23,281	7,146	31,421
	14,393	1,431,737	20,685	1,419,859
Other burial services		147,406		131,535
Total revenue from burial services	14,393	1,579,143	20,685	1,551,394

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, revenue from sale of burial plots services for ordinary business purpose increased by approximately RMB20.0 million or 1.4% as compared to Last Year, in which sales volume decreased by 456 or approximately 3.4%, while ASP increased by approximately 5%. 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 comparable cemeteries during the Year:

	2020		2019	
	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*	12,074	1,358,967	13,526	1,388,242
Cemeteries related to acquisitions/new construction	1,009	49,489	13	196
Total revenue from sale of burial plots services for ordinary business purpose	13,083	1,408,456	13,539	1,388,438

* Comparable cemeteries refer to those cemeteries which were in operation for the entire period from January 1, 2019 to December 31, 2020.

During the Year, revenue from ordinary business burial plots of comparable cemeteries decreased by approximately RMB29.3 million, or 2.1%, as compared to that of Last Year, in which sales volume decreased by 1,452 or approximately 10.7%, while ASP increased by approximately 9.7%. Such movement was mainly attributable to the deferred demands for burial plots purchases as affected by the COVID-19, while we kept on improving our old cemeteries (i.e. comparable cemeteries), enriching service mix and optimizing its cultural content, and enhancing our service value. The ASP of comparable cemeteries saw an increase.

During the Year, revenue from burial plots sold for ordinary business purpose in the new cemeteries amounted to approximately RMB49.5 million, while the ASP was lower than that of comparable cemeteries. This was mainly attributable to different geographical locations and market environments of new cemeteries and the fact that those new cemeteries need time to improve their ecological landscape, enhance the services, strengthen their team and upgrade the operation gradually, in order to provide high quality services to their customers, thereby increasing the return of the Group. We formulated a systematic operation improvement plan for these new projects to ensure the achievement of the above goals. Leveraging on our advanced philosophy, extensive management and historical experience in death care business and a strong team of professionals, those new cemeteries are expected to achieve profitable growth in the future.

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:

	2020		2019	
	No. of customers	Revenue (RMB'000)	No. of customers	Revenue (RMB'000)
Funeral services, from:				
Comparable facilities*	37,685	228,506	41,108	254,570
Facilities related to new acquisitions or new construction	9,706	24,432	650	2,358
Total revenue from funeral services	47,391	252,938	41,758	256,928

* Comparable facilities refer to those funeral facilities which were in operation for the entire period from January 1, 2019 to December 31, 2020.

During the Year, our revenue from funeral services decreased by approximately RMB4.0 million or 1.6%. The proportion of revenue from funeral services to the total revenue in the Year was generally in line with Last Year. During the Year, the revenue from funeral services provided by comparable funeral facilities decreased by approximately 10.2% compared that of Last Year. Due to the impacts of the COVID-19 outbreak, there had been a phased suspension of group gathering activities such as vigil and farewell in some regions, resulting in a year-on-year decrease in service volume in the first half of the Year, in tandem with a decrease in value-added service items and the ASP. The ASP of these new funeral facilities was lower than that of the comparable funeral facilities since they had different geographical locations and market environments and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Geographic Information

Our cemeteries and funeral facilities under operation are strategically located in major cities across 16 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 during the Year:

	2020		2019	
	Revenue (RMB'000)	%	Revenue (RMB'000)	%
Shanghai	860,062	46.9%	912,978	50.5%
Henan	122,959	6.7%	113,678	6.3%
Chongqing	76,967	4.2%	67,892	3.7%
Anhui	177,233	9.7%	179,046	9.9%
Shandong	94,232	5.1%	81,786	4.5%
Liaoning	153,949	8.4%	181,614	10.0%
Jiangxi	93,764	5.1%	80,789	4.5%
Fujian	37,983	2.1%	46,283	2.6%
Zhejiang	36,117	2.0%	30,476	1.7%
Jiangsu	81,212	4.4%	64,302	3.6%
Guangxi	17,975	1.0%	15,664	0.9%
Inner Mongolia	15,569	0.9%	18,191	1.0%
Guizhou	32,234	1.8%	15,407	0.8%
Hubei	719	0.0%	216	0.0%
Heilongjiang	30,498	1.7%	—	—%
Gansu	608	0.0%	—	—%
Total	1,832,081	100.0%	1,808,322	100.0%

During the COVID-19 outbreak in the Year, due to less gathering of crowds, full-fledged cemeteries and funeral value-added services could not be offered in some regions, resulting in a year-on-year decrease in revenue. Following the alleviation of the COVID-19 outbreak, the deferred consumer demands in the cemetery market experienced a significant clawback. At the same time, with the continuous integration of the philosophies, culture and brands of Fu Shou Yuan, the value of services provided by our cemeteries and funeral facilities has been enhanced. Even under the impacts of the epidemic, revenue in some regions still managed to rise year-on-year.

Other Services

Revenue from other services for the Year mainly represented the revenue of approximately RMB34.0 million generated from our professional design services offered to cemeteries and funeral parlours throughout the nation, and revenue from the sale of cremation machines and other related services of approximately RMB50.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENDITURE

The Group's operating expenditure, which accounted for approximately 51.0% of our total revenue for the Year (Last Year: 53.0%), decreased by approximately RMB16.6 million or 1.7%. The decrease in operating expenditure is mainly attributable to adjustments to business structure, effective cost control under the management for cost reduction and efficiency enhancement and various concessionary policies benefitting the Group during the COVID-19 outbreak.

The staff costs include staff salaries, bonuses, benefits and amortization of share option costs. During the Year, the staff costs decreased by approximately RMB30.3 million or 7.3%. The decrease was mainly attributable to the combined effect of various social insurance concessions granted to the Group and optimization of working structure and remuneration structure of staff during the COVID-19 outbreak.

The construction costs represent our expenditures in building burial plot products (excluding stone materials). During the Year, the product construction costs increased by approximately RMB3.6 million or 4.9%, mainly due to the fact that we have expanded operations and have been offering more beautiful environment, higher service quality, more timely and diversified choices to our customers. However, such increase in costs was not significant due to our stringent control on projects.

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 by approximately RMB7.6 million or 5.4%, which is mainly due to the related business growth during the Year.

Outsourced service costs mainly represent the costs incurred when part of the daily maintenance and basic services are provided by external suppliers. During the Year, outsourced service costs decreased by approximately RMB1.5 million or 2.8% compared to Last Year, mainly benefitted from our strict expenditure control.

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 approximately RMB2.6 million or 6.7%. Such decrease was mainly attributable to the optimization of our sales channel in certain regions, enhancement of our direct sales team to ensure that our services are systematic and of high quality, and commission policy adjustment to gradually reduce the reliance on external sales agents.

Depreciation and amortisation increased by approximately RMB13.5 million or 11.0%, which is mainly due to the commencement of operation of certain new cemeteries and funeral facilities starting from Last Year.

Other general operating expenditures decreased by approximately RMB5.6 million or 4.1%. Despite the expanded scale of operations and operation of new burial and funeral facilities, effective cost control has resulted in decline in general operating expenditures.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING PROFIT AND OPERATING PROFIT MARGIN

As a result of the foregoing change of revenue and operating expenditure, during the Year, our operating profit increased by approximately RMB58.6 million or 6.7% compared to Last Year. The following table sets forth a breakdown of our operating profit and operating profit margin by segment for the Year:

	2020		2019	
	Operating Profit (RMB'000)	Operating Profit Margin	Operating Profit (RMB'000)	Operating Profit Margin
Burial services	901,055	57.1%	843,543	54.4%
Funeral services	28,006	11.1%	26,241	10.2%
Other services	3,321	4.0%	1,794	3.4%
Inter-segment elimination	(4,479)	19.0%	(2,237)	20.4%
Total	927,903	49.0%	869,341	47.0%

During the Year, the operating profit margin of burial services increased to 57.1% from 54.4% for Last Year, mainly attributable to effective cost control for burial services. The operating profit margin of funeral services increased to 11.1% from 10.2% for Last Year, mainly attributable to benefits incurred by the commissioning of new funeral facilities, of which the construction was completed in 2019, during the Year. Also, with the optimization of financial resources across the Group, various funeral costs had been under effective control.

During the Year, other services segment recorded an operating profit of approximately RMB3.3 million, in particular, the subsidiary offering professional design maintained stable revenue. The cremation machine business recorded a larger revenue during the Year, however, since the online death care business is still in the commissioning stage, there was a generally low profit distribution. Having said that, we are highly optimistic about the prospects of the online death care business given the requirements for developing digital cemeteries currently implemented by the government.

FINANCE COSTS

Finance costs for the Year consisted of interest expenses of RMB2.6 million on bank loans (Last Year: RMB4.8 million), interest expenses of RMB2.8 million (Last Year: RMB3.0 million) on loans from non-controlling shareholders of certain subsidiaries, and interest expenses on lease liabilities calculated based on lease standards of RMB4.1 million (Last Year: RMB3.2 million).

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' loans 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, changes in the value of financial assets at fair value, donations and etc. Interest income and gain from changes in fair value of unlisted cash management products for the Year was RMB52.4 million, decreased by RMB5.6 million compared to that of Last Year resulting from the decline in the rate of return on funds in the RMB market and the balance of funds for the Year. Meanwhile, gain from change in fair value of the equity investment decreased by RMB8.3 million compared to that of Last Year. Government subsidies for the Year were approximately RMB19.7 million. During the Year, the Group donated approximately RMB1.7 million to Shanghai Fu Shou Yuan Public Welfare Foundation, representing an increase of approximately RMB1.6 million as compared to Last Year.

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 22.7% (Last Year: 22.3%). The difference between the standard tax rate of 25% and the effective tax rate of 22.7% 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) certain subsidiaries are recognized as micro and small enterprises and are subject to a lower income tax rate of 10% according to relevant tax reduction policies; (iii) our interest income earned from bank deposits placed in Hong Kong is free from any income tax according to relevant Hong Kong tax rules; (iv) the share options granted by the Group to some employees of subsidiaries in mainland China can form a base for claiming tax deduction in respect of the EIT of those subsidiaries; and (v) the Group reverses certain prior year tax provisions when tax uncertainties on such provisions have been resolved during the Year.

During the Year, income tax expenses were approximately RMB222.8 million, representing an increase of approximately RMB11.4 million or 5.4% compared to Last Year, mainly as a result of the increase in profit before tax due to growth of business.

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 for the Year amounted to approximately RMB620.1 million, increased by approximately RMB41.5 million, or 7.2% compared to Last Year. This increase was primarily due to: (i) the overall growth of our revenue by 2.3%; and (ii) the steady increase in the operating profits resulting from continuous value improvement and effective cost control, which was partly offset by the increase in income tax expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW

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

	2020 (RMB'000)	2019 (RMB'000)
Net cash generated from (used in)		
– operating activities	904,953*	791,820*
– investing activities	(1,191,690)*	(97,104)*
– financing activities	(486,383)	(181,225)
Total	(773,120)	(513,491)

* A classification made by the management of the Group in this table does not comply with International Financial Reporting Standards, however the management considers that this classification can better reflect the nature of the Group's business and can make the information disclosed more comparable. The net cash generated from operating activities disclosed in the audited financial statements amounted to approximately RMB822.3 million (Last Year: RMB707.1 million) and the net cash used in investing activities as disclosed in the audited financial statements amounted to approximately RMB1,109.1 million (Last Year: RMB12.4 million). During the Year, an amount of approximately RMB82.6 million (Last Year: RMB84.7 million) related to the payment for cemetery land acquisition and was here classified under the cash used in investing activities, instead of cash used in operating activities.

Our cash generated from operating activities is 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. During the Year, our net cash generated from operating activities amounted to RMB905.0 million, representing an increase of approximately RMB113.1 million or 14.3% as compared to Last Year, maintaining our competitiveness as always in generating cash from our operating activities.

During the Year, our net cash used in investing activities amounted to RMB1,191.7 million. It was primarily due to: (i) payment of approximately RMB511.1 million to acquire subsidiaries, operation rights of cemetery and funeral home and other investments; (ii) payment of approximately RMB82.6 million to acquire land use rights, including a piece of land for cemetery development purpose located in Jinzhou City of Liaoning Province and a piece of land for cemetery development purpose located in Fangchenggang City of Guangxi Autonomous Region; and (iii) payment for building new burial and funeral facilities in Bishan District of Chongqing Municipality, Hohhot City of Inner Mongolia, Xuancheng City of Anhui Province, Zheng'an County, Zunyi City of Guizhou Province, Tianmen City of Hubei Province, Nanchang City and Yanshan County of Shangrao City in Jiangxi Province and Yancheng City and Gaoyou City in Jiangsu Province, capital expenditures for upgrades and maintenance in other cemeteries and funeral facilities, and construction expenditure of the operating system in total of approximately RMB106.4 million; (iv) net purchase of time deposits and other financial assets of approximately RMB556.9 million, partly offset by interests and gains from unlisted cash management products received of approximately RMB61.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, our net cash used in financing activities amounted to RMB486.4 million. It was primarily due to: (i) final dividends for 2019 and interim dividends for 2020 paid to shareholders of the Company of approximately RMB155.5 million in aggregate; (ii) dividends paid by subsidiaries to their non-controlling shareholders of approximately RMB139.4 million; (iii) interest payment of approximately RMB7.0 million for our borrowings; (iv) repayment of loans to non-controlling shareholders and third parties of approximately RMB68.4 million and a net reduction in bank loans of approximately RMB42.5 million; (v) payment of approximately RMB135.2 million for acquisition of equity interests from non-controlling shareholders of some non-wholly owned subsidiaries; (vi) purchase of shares of the Company by scheme trustee under the Restricted Share Incentive Scheme, which resulted in net cash outflow of approximately RMB187.7 million after taking into account of the dividend received; and (vii) settlement of payment for lease liability of approximately RMB22.1 million. These cash outflows were partially offset by: (i) the proceeds of approximately RMB246.3 million received upon exercise of share options; and (ii) the capital and loan contribution of approximately RMB25.3 million in aggregate from the non-controlling shareholders of certain of our non-wholly owned subsidiaries.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2020, the Group had bank balances and cash of approximately RMB1,234.0 million (December 31, 2019: RMB2,007.1 million), time deposits of RMB Nil (December 31, 2019: RMB8.5 million) and financial assets of approximately RMB982.9 million (December 31, 2019: RMB417.6 million). Such financial assets represent cash management products with relatively lower risk ratings, which are repayable on demand and have maturity dates shorter than six months, or are repayable upon notice of withdrawn by the Group at its discretion. Such assets are highly dispersed and are managed by certain state-owned banks, with expected annualized return rates ranging from 1.1% to 3.7%. To support our expansion strategy, we hold a relatively high level of cash. In order to moderately increase capital returns, under the premise of ensuring safety and liquidity, we have allocated a part of treasury fund to short-term cash management products. Such products are issued and managed by state-owned banks and have clearly-specified expected return rates, maturity dates or are immediately redeemable. Even though the principals and return rates of such products are not guaranteed by the issuing banks and are determined with reference to the performance of the underlying assets, such as government debt instruments, treasury notes and corporate bonds with high credit ratings, their principals and return rates are secured in substance considering the features and historical performance of such products and present situation of banking 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. 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. Considering our low gearing ratio, we prefer to adopt the debt financing if any financing requirements arise in the future. The Board confirmed that the transactions in financial assets for the Year, on a standalone basis and aggregate basis, did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

We had outstanding bank borrowings of approximately RMB13.9 million as at December 31, 2020, which are repayable within one year. These borrowings were dominated in RMB and were subject to floating interest rates per annum. The interest rate applicable on December 31, 2020 is 4.35%. As at December 31, 2020, three non-wholly owned subsidiaries of the Group had a loan of approximately RMB35.9 million due to their respective non-controlling shareholders, among these subsidiaries, one had a loan of approximately RMB27.0 million. The interest rate of the loan was 4.35% per annum, which is repayable within one year. One subsidiary had a loan of approximately RMB5.9 million with interest rate at 6.30% per annum, which is repayable on demand; another subsidiary had a loan of approximately RMB3.0 million with interest rate at 6.00% per annum, which is repayable within one year.

In addition, we had undrawn bank borrowing facilities of approximately RMB19.6 billion as at December 31, 2020.

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, 2020 was 1.0% (December 31, 2019: 1.9%). 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, 2020, the financial assets, time deposits, bank balances and cash held in RMB, HK\$ and US\$ accounted for 94.5%, 5.1% and 0.4%, 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

We signed a contract in June 2020 to acquire 80% equity interests in Jinsha Fuze. According to the agreed provisions, we shall make total capital injection of RMB49 million in Jinsha Fuze by two batches and pay a cash consideration of RMB83 million to the independent third party.

We signed a contract in July 2020 to acquire 100% equity interests in Harbin Mingxiyuan Cemetery, which is principally engaged in the provision of burial services in Harbin City of Heilongjiang Province, for a consideration of RMB450.0 million. The acquisition was completed in August 2020.

We signed a contract in March 2019 to acquire 95% equity interests in Gansu Hailin Jingtang Industrial Co., Ltd.* (甘肅海林嶺港實業有限公司), which is principally engaged in the provision of burial services in Lanzhou City of Gansu Province. A supplementary contract was entered into in November 2020, pursuant to which, we shall make total capital injection of RMB54.1 million in Hailin Jingtang Industrial Co., Ltd. by batches and pay a consideration of RMB40.9 million to the former shareholder. The acquisition was completed in November 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2020, we had 2,345 full-time employees (December 31, 2019: 2,349). 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.

We have adopted the Restricted Share Incentive Scheme on November 29, 2019 to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group.

CAPITAL COMMITMENT

We contracted, but not provided in the financial statements, for capital expenditure in respect of funeral facilities, cemetery assets and property and equipment in a total amount of approximately RMB86.1 million as at December 31, 2020.

ASSETS PLEDGED

As at December 31, 2020, we have 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.

CEMETERY LANDS AVAILABLE

The saleable area for burial plots was approximately 2.44 million sq.m. as at December 31, 2020 (December 31, 2019: approximately 2.30 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

We had settled most of the lawsuits without substantial losses by the end of year 2020, with five outstanding lawsuits remaining, and all of which are related to one of our indirect and wholly-owned subsidiaries, Wuyuan Wanshoushan Cemetery as a defendant, which have also been disclosed in our previous announcements. The aggregate of claim amount of these five lawsuits was approximately RMB58.46 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, 2020, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE YEAR

There were no other significant events that might affect the Group subsequent to the Year.

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 strategy of expansion, 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 of the Internet to improve service contents and accessibility and formulate our plan for the business of death care related consumables. Last but not least, while promoting growth in various business segments, we will strive for a balance between short-term interest and long-term value, expand our business 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 Shareholders with the best returns.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Bai Xiaojiang (白曉江), aged 63, 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 and Shanghai Zhongfu. Mr. Bai has been 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 23 years of experience in the death care services industry in the PRC and has served the Group for 23 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 56, 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. 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 68, is the executive Director and 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 was the managing director of Shanghai Fu Shou Yuan between 1996 and 2019. He is also the president of Shanghai FSY Corporate Management Consultancy. He acted as one of the promoters of NGO 2. Mr. Wang has more than 27 years of experience in the death care services industry in the PRC and has served the Group for more than 27 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 71, is the non-executive Director. Mr. Lu is a senior engineer. He has more than 25 years of experience in the death care services industry in the PRC.

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

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang James Chih-cheng, aged 62, 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 October 31, 2014. Prior to those, Mr. Huang served in various senior management positions within Pacific Millennium Holding Corporation. Prior to joining Pacific Millennium Holding Corporation, Mr. Huang served as corporate accounting manager at Electronic Data Systems in Dallas, Texas, from 1984 to 1987. He had also served as president of Energy System International, Beijing from 2003 to 2006; member of the board between 1994 and 2000 and subsequently elected as chairman of the board between 1999 and 2000 for Millennium Bank, San Francisco, California.

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

Ms. Zhou Lijie (周立杰), aged 46, is the non-executive Directors. Ms. Zhou has over 20 years of work experience in the investment industry. Ms. Zhou is currently the investment director of Sunshine Asset Management Co., Ltd.* (陽光資產管理股份有限公司). From 2001 to 2009, Ms. Zhou served as research supervisor of Beijing HaiWen Consultants Co., Ltd.* (北京海問諮詢有限公司). From 2009 to 2020, Ms. Zhou successively served as deputy director of the Asset Management Center of Sunshine Insurance Group Co., Ltd.* (陽光保險集團股份有限公司), and senior research manager, assistant to general manager, deputy general manager and general manager of the research department of Sunshine Asset Management Co., Ltd.

Ms. Zhou obtained a bachelor' degree in investment economics from Renmin University of China (中國人民大學) in 1998 and a master' degree in financial management from Tianjin University of Commerce (天津商學院) in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Qunlin (陳群林), aged 74, 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Luo Zhuping (羅祝平), aged 69, 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 51, is the independent non-executive Director and chairman of the Audit Committee. Mr. Ho has over 22 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 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 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. an independent non-executive director of Grand Ocean Advanced Resources Company Limited (SEHK stock code: 65) since January 2020. All of the companies mentioned above are listed on the Main Board of the Stock Exchange.

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. Liang Yanjun (梁艷君), aged 37, is the independent non-executive Director and chairman of the Compliance Committee. Ms. Liang has over 14 years of experience in legal service and many years of relevant experience in securities and capital markets. Prior to joining the Group, Ms. Liang worked as legal assistant in Beijing Zhongke Fuqiao Technology Co., Ltd.* (北京中科富橋科技有限公司) from August 2006 to November 2007, CEO assistant in Global Energy Investment Co., Ltd.* (環球能源投資有限公司) from December 2007 to February 2009, assistant of the minister in exchange department of China Center for International Economic Exchanges* (中國國際經濟交流中心) from March 2009 to February 2010, a lawyer in Beijing Jingtian & Gongcheng* (北京市競天公誠律師事務所) from December 2010 to May 2016, lawyer and kernel group member in Beijing Maode Attorneys At Law* (北京懋德律師事務所) from 2016 to March 2019, an independent non-executive director in Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司) (SEHK stock code: 2718) from August 2018 to present, a partner-level lawyer in B&D Law Firm* (北斗鼎銘律師事務所) from April 2019 to August 2019 and a partner-level lawyer in Javy Tayn Lawyers* (北京嘉維泰銀律師事務所) from September 2019 to present.

Ms. Liang obtained a bachelor's degree in the science of law from China University of Political Science and Law (中國政法大學) in June 2005. She received her lawyer's practicing certificate of the PRC granted by the Ministry of Justice of the PRC in March 2011. She was awarded the Qualifications for Directors of Non-bank Financial Institutions in August 2018 and received the Qualification of Independent Directors issued by the Shanghai Stock Exchange in November 2018.

Mr. Chen Xin (陳欣), aged 45, is the independent non-executive Director. Mr. Chen has over 20 years of experience in finance and investment industries. From 1997 to 2000, Mr. Chen successively served as assistant trade service manager, assistant banking services manager and project finance executive in The Hongkong and Shanghai Banking Corporation Limited (HSBC Group). From 2002 to 2011, Mr. Chen successively served as associate and vice president of the corporate finance group of the investment banking division and executive director of the Asian Special Situations Group (ASSG) in Goldman Sachs (Asia) L.L.C. Mr. Chen served as head of China in Permira Advisors (Asia) Limited from 2011 to 2014, served as founding partner of Fides Capital Investors I, L.P. from 2014 to 2017, served as head of direct investment in CMBC Capital Holdings Limited from 2017 to 2018, served as a partner, managing director and head of private equity investment in Ally Bridge Group from 2018 to February 2020, and served as co-president and head of investment in Guangdong-Hong Kong-Macao Greater Bay Area of Fosun Private Equity from February 2020 to present.

Mr. Chen obtained a bachelor's degree of arts in Finance from Fudan University in 1997, a master's degree in Economics from The Hong Kong University of Science and Technology in 2000 and a master's degree in business administration from The Yale School of Management, major in finance and business strategy, in 2002, respectively.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

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

Mr. Ma Jianting, Sam (馬劍亭), aged 40, is our chief financial officer. He has over 17 years of work experience in finance and auditing, and has extensive experience in financial management, internal control and auditing and merger and acquisition. Prior to joining the Group, Mr. Ma had served in various positions in China Minsheng Investment Group Corp., Ltd. ("China Minsheng Investment Group") and its subsidiaries or the companies it has invested in, including acting as a non-executive director and member of the audit committee, investment committee and remuneration committee of China Medical & HealthCare Group Limited (SEHK stock code: 383) from August 2019 to June 11, 2020; the head of finance team of China Minsheng Investment Group from October 2019 to May 2020; the chief financial officer of CMIG Asia Asset Management Co., Ltd. from July 2017 to May 2020; a non-executive director of China Minsheng Financial Holding Corporation Limited (SEHK stock code: 245) from November 2017 to February 2019; and a senior manager of the finance and accounting department of China Minsheng Investment Group from June 2017 to July 2017. From September 2003 to May 2017, he worked in the audit department in Shanghai office of Ernst & Young Hua Ming LLP and his last position was an audit senior manager, during which from September 2008 to March 2010, he was assigned to Manchester office of Ernst & Young (United Kingdom) as an audit executive.

Mr. Ma obtained a Bachelor's Degree in English (Finance and Business) from Shanghai Jiao Tong University in June 2003, and holds the qualification of PRC Certified Public Accountant (CICPA).

Ms. Hu Yi (胡軼), aged 36, 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. Ms. Hu is responsible for investor relations, corporate finance and corporate governance of the Group. 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, 2020.

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 42 to the financial statements.

RESULTS OF OPERATIONS

The results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this Annual Report.

FINANCIAL SUMMARY

The financial summary of the Group between 2016 and 2020 is set out on page 180 in the section "Financial Summary" of this Annual Report.

BUSINESS REVIEW

During the year ended December 31, 2020, the Group realized the sale of 14,393 tombs and provided funeral services to 47,391 customers and recorded total revenue of RMB1,892.5 million, made a net profit totalling RMB757.3 million, and net profit attributable to our shareholders of RMB620.1 million.

As at December 31, 2020, we operated 30 cemeteries, and 28 funeral facilities throughout the PRC. Our business coverage has expanded to 45 cities across 18 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 leading the modernization reform of the death care business in China so as to reduce the risk arising from outdated regulations for the industry.

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

One of the important strategies of the Group is to accomplish 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 market needs during our expansion.

DIRECTORS' REPORT

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

We signed a contract in June 2020 to acquire 80% equity interests in Jinsha Fuze. According to the agreed provisions, we shall make a total capital injection of RMB49 million in Jinsha Fuze by two batches and pay a cash consideration of RMB83 million to the independent third party.

We signed a contract in July 2020 to acquire 100% equity interests in Harbin Mingxiyuan Cemetery, which is principally engaged in the provision of burial services in Harbin City of Heilongjiang Province, for a consideration of RMB450.0 million. The acquisition was completed in August 2020.

We signed a contract in March 2019 to acquire 95% equity interests in Gansu Hailin Jinggang Industrial Co., Ltd.* (甘肅海林嶺港實業有限公司), which is principally engaged in the provision of burial services in Lanzhou City of Gansu Province. A supplementary contract was entered into in November 2020, pursuant to which we shall make a total capital injection of RMB54.1 million in Hailin Jinggang Industrial Co., Ltd. by batches and pay a consideration of RMB40.9 million to the former shareholder. The acquisition was completed in November 2020.

Events occurred since the end of the financial year

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

Future development

For more than seven 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.

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 to death care services. We will adhere to our strategy of expansion, 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 of the Internet to improve service contents and accessibility and formulate our plan for the business of death care related consumables. 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.

DIRECTORS' REPORT

Environmental policies and performance

The Group has always adhered to the sustainable development philosophy of “transforming cemeteries into parks, farewells into beautiful moments and ceremony into commemoration” and is committed to making breakthroughs in ideas, products, services, culture, art, science and technology, integrating the concept of green, ecology, art, humanistics into funeral culture, guide the death care service return to the cultural essence of emotional needs, promoting Chinese traditional culture, leading the development and reform of China’s modern death care industry.

In order to promote the implementation of the sustainable development strategy, the Group established the Sustainable Development Committee during the year, further clarifying the three-tier management structure comprising Board of Directors, Compliance Committee and the Sustainable Development Committee, improving ESG governance. In response to the national policy and to explore the optimization of the industrial ecosystem, we launched the online tomb-sweeping platform and Fu Shou Cloud products, with digital innovation services to empower the traditional death care service industry.

The Group is determined to promote green development to create a beautiful environment, promote green funeral management mode, innovates energy-saving and high-efficiency cremation technology, implement green burial, smoke-free tomb-sweeping, and builds an ecological landscape cemetery. The Group adheres to the concept of “people-oriented, culture-rooted” and optimizes internal training system and contents as well as assists employees to realize their value.’ Rely on the “Shanghai Fu Shou Yuan Public Welfare Foundation”, the Group proactively assumes corporate, social, industry, historical and public responsibilities, and will actively improve the quality of people’s livelihood services, lead the life education and promote the public welfare activities of culture memorial.

Brilliant and splendid, the Chinese culture has a long history with accumulation of diverse and precious spiritual wealth. As an inheritor and protector of history and culture, we always regard memorial culture as the gene and blood of Fu Shou Yuan. In order to promote the patriarchal spirit, popularize the history of the city, and continue the spiritual wealth of mankind, the Group actively promotes life education and red culture, constantly creates long-term values that serve memorial and emotion, and constantly opens boundaries to promote public life education. In addition, the Group deepens school-enterprise cooperation, assists funeral vocational education, and promotes the internationalization and standardization of China’s funeral industry.

Please refer to the 2020 Sustainability Report of the Group to be published in due course for more details of the Group’s sustainability policy and performance.

DIRECTORS' REPORT

Compliance with the relevant laws and regulations

The Group recognizes the importance of compliance with regulatory requirements. The Group has set up various internal control systems 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. We have adopted the Restricted Share Incentive Scheme on November 29, 2019 to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group. As at December 31, 2020, we had 2,345 full-time employees (December 31, 2019: 2,349).

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 continue to enhance the 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 2020 sustainability report of the Company.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK5.53 cents per Share for the year ended December 31, 2020 (2019: HK4.21 cents per Share). The final dividend will be payable on June 30, 2021 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 Thursday, May 20, 2021 to Tuesday, May 25, 2021, 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 18, 2021.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Thursday, June 17, 2021 to Monday, June 21, 2021, 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 Wednesday, June 16, 2021.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 42 to the audited consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2020, purchases from the Group's five largest suppliers accounted for 35.9% (2019: 28.9%) of the Group's total purchases and purchases from our single largest supplier accounted for 11.3% (2019: 12.0%) of the Group's total purchases.

DIRECTORS' REPORT

During the year ended December 31, 2020, 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, 2020 are set out in Note 13 to the audited consolidated financial statements.

SHARE CAPITAL

During the year ended December 31, 2020, 54,247,500 ordinary shares were issued by exercise of share options. The total consideration received by the Company for the above issue is HK\$277,570,119. Details of the movements in the Company's share capital during the year ended December 31, 2020 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, 2020 are set out in the consolidated statement of changes in equity on page 66 of this Annual Report and Notes 33 and 44 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, 2020, are set out in Note 44 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 28 to the audited consolidated financial statements.

TAXATION

If 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, 2020.

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, 2020, the Group made approximately RMB1.7 million charitable and other donations.

DIRECTORS

The Directors during the year ended December 31, 2020 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. Lu Hesheng

Mr. Huang James Chih-cheng

Mr. Ma Xiang¹

(resigned on March 24, 2021)

Ms. Zhou Lijie²

(appointed on March 24, 2021)

Independent Non-executive Directors

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

Ms. Liang Yanjun

Mr. Chen Xin³

(appointed on January 21, 2021)

Notes:

¹ Mr. Ma Xiang resigned as non-executive Director with effect from March 24, 2021 due to other work arrangements.

² Ms. Zhou Lijie was appointed as non-executive Director with effect from March 24, 2021.

³ Mr. Chen Xin was appointed as independent non-executive Director with effect from January 21, 2021.

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. Tan Leon Li-an, Mr. Lu Hesheng and Mr. Chen Qunlin shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

In accordance with Article 112 of the Articles of Association, Mr. Chen Xin, being appointed as an additional Director by the Board on January 21, 2021 and Ms. Zhou Lijie, being appointed as non-executive Director by the Board on March 24, 2021 to fill a casual vacancy, shall retire at the AGM and, being eligible, have offered themselves for re-election.

DIRECTORS' REPORT

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, 2020 or at any time during the year ended December 31, 2020. 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, the controlling shareholder of the Company, 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, 2020. 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.

TAX RELIEF

The Directors are not aware of any tax relief available to the Shareholders by reason of their holding of the Company's securities.

DIRECTORS' REPORT

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, 2020.

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, 2020 are set out in Note 9 to the audited consolidated financial statements.

PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED AGREEMENT

Save for the Share Option Scheme and Restricted Share Incentive 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, 2020.

SHARE OPTION SCHEME AND RESTRICTED SHARE INCENTIVE SCHEME

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 8.62% 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.

DIRECTORS' REPORT

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 December 9, 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, 2020, the total number of Shares available for issue upon exercise of the options granted under the Share Option Scheme was 10,308,500 Shares (representing 0.44% 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, 2020:

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, 2020	Options granted during the year ended December 31, 2020	Options exercised during the year ended December 31, 2020	Options lapsed during the year ended December 31, 2020	Options cancelled during the year ended December 31, 2020	Options outstanding as at December 31, 2020	Exercisable period
<i>Directors</i>										
Bai Xiaojiang	March 20, 2017	4.850	4.82	5,000,000	—	5,000,000 ¹	—	—	—	March 20, 2019 to March 19, 2021
Wang Jisheng	March 20, 2017	4.850	4.82	5,000,000	—	5,000,000 ¹	—	—	—	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	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
Chen Qunlin	March 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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	March 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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	March 24, 2016	5.824	5.54	300,000	—	300,000 ²	—	—	—	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)	March 24, 2016	5.824	5.54	14,456,000	—	13,956,000 ³	500,000	—	—	March 24, 2018 to March 23, 2020
	March 20, 2017	4.850	4.82	38,300,000	—	29,391,500 ⁴	—	—	8,908,500	March 20, 2019 to March 19, 2021
Total				66,056,000	—	54,247,500	1,500,000	—	10,308,500	

Note 1: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.73.

Note 2: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.31.

Note 3: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$6.67.

Note 4: The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$7.38.

DIRECTORS' REPORT

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the year ended December 31, 2020.

We have adopted the Restricted Share Incentive Scheme on November 29, 2019 to provide incentive or reward to eligible participants including directors and employees for their contribution or potential contribution to the Group. As at December 31, 2020, the trustee of the Restricted Shares Incentive Scheme held 34,800,000 shares while no Restricted Shares were granted under the Restricted Incentive Scheme. For more details, please refer to our announcement dated November 29, 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at December 31, 2020, 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	4.18%
	Beneficial owner	Long position	10,453,452	0.45%
Mr. Wang Jisheng	Beneficiary of a trust (Note 2)	Long position	96,600,000	4.18%
	Beneficial owner	Long position	5,453,452	0.24%
Mr. Tan Leon Li-an	Beneficial owner	Long position	900,000	0.04%
Mr. Lu Hesheng	Interest in a controlled corporation (Note 3)	Long position	27,600,000	1.19%
Mr. Huang James Chih-cheng	Beneficial owner	Long position	400,000	0.02%

Notes:

- Mr. Bai Xiaojiang is interested in the entire issued share capital of Wish and Catch, which in turn is interested in approximately 4.18% 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.
- Mr. Wang Jisheng is interested in the entire issued share capital of Peaceful Field, which in turn is interested in approximately 4.18% 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.
- Mr. Lu Hesheng is interested in the entire issued share capital of Grand Fire, which in turn is interested in approximately 1.19% 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 the section headed "Share Option Scheme and Restricted Share Incentive Scheme" above.

DIRECTORS' REPORT

Save as disclosed above, as at year ended December 31, 2020, 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, 2020, so far as the Directors or the chief executive of the Company were aware, the Substantial Shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company
FSG Holding	Beneficial owner	Long position	388,318,000	16.81%
Mr. Tan Tize Shune (also know as "Tan Chih Chun")	Founder of a discretionary trust (Note 1)	Long position	388,318,000	16.81%
Perfect Score	Beneficial owner	Long position	483,000,000	20.91%
Zhongfu	Interest in a controlled corporation (Note 2)	Long position	483,000,000	20.91%
Hongfu	Interest in a controlled corporation (Note 3)	Long position	483,000,000	20.91%
NGO 1	Interest in a controlled corporation (Note 4)	Long position	483,000,000	20.91%
NGO 2	Interest in a controlled corporation (Note 5)	Long position	483,000,000	20.91%
UBS Trustees (BVI) Limited	Trustee	Long position	193,200,000	8.36%
Sunshine Life Insurance Co., Ltd.* (陽光人壽保險股份有限公司)	Beneficial owner (Note 6)	Long position	151,482,000	6.56%
Sunshine Insurance Group Co., Ltd.* (陽光保險集團股份有限公司)	Interest in a controlled corporation (Note 6)	Long position	151,482,000	6.56%

* The English translation is for identification purpose only

Notes:

- Mr. Tan Tize Shune (also known as "Tan Chih Chun"), the father of Mr. 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 16.81% of the issued share capital of the Company in which FSG Holding is interested in.
- Perfect Score is a direct wholly-owned subsidiary of Zhongfu and Zhongfu is deemed or taken to be interested in approximately 20.91% of the issued share capital of the Company in which Perfect Score is interested in.

DIRECTORS' REPORT

3. Zhongfu is a direct wholly-owned subsidiary of Hongfu and Hongfu is deemed or taken to be interested in approximately 20.91% 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 20.91% 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 20.91% of the issued share capital of the Company in which Perfect Score is interested in.
6. 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 6.56% 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, 2020, 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 Scheme and Restricted Share Incentive Scheme" above, at no time during the year ended December 31, 2020 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 39 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, 2020.

CONNECTED TRANSACTION

- (1) Shandong World Trade Centre and Shandong Fu Shou Yuan entered into a loan agreement on January 1, 2016 and renewed at the end of each year, pursuant to which Shandong World Trade Centre provided a shareholder loan to Shandong Fu Shou Yuan. As at December 31, 2020, the loan remaining outstanding amounted to approximately RMB5.9 million. The interest rate is approximately 6.3% 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.

DIRECTORS' REPORT

Shandong World Trade Centre is a connected person of the Company at subsidiary level as it is a substantial shareholder of Shandong Fu Shou Yuan and owns 50% equity interest in Shandong Fu Shou Yuan. The Loan constituted a continuing 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, 2020, the loan remaining outstanding amounted to approximately RMB27.0 million. The interest rate is approximately 4.350% 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 at subsidiary level it is a substantial shareholder of Xiyuan Fu Shou Yuan and owns 49% equity interest in Xiyuan Fu Shou Yuan. The Loan constituted a continuing 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) Nanchang Municipal Public Asset Management Co., Ltd. (南昌市政公用資產管理有限公司) ("Nanchang Municipal") and Nanchang Hongfu entered into a loan agreement on December 19, 2019, pursuant to which Nanchang Municipal provided a shareholder loan to Nanchang Hongfu. As at December 31, 2020, the loan remaining outstanding amounted to approximately RMB3.0 million. The interest rate is approximately 6.00% per annum.

The reason for entering into the shareholder's loan with Nanchang Municipal (the "Loan") was for the purpose of replenishing liquidity.

Nanchang Municipal is a connected person of the Company at subsidiary level as it is a substantial shareholder of Nanchang Hongfu and owns 49.11% equity interest in Nanchang Hongfu. The Loan constituted a continuing connected transaction.

DIRECTORS' REPORT

The Directors are of the view that the Loan, being a form of financial assistance (as defined under the Listing Rules), was provided by Nanchang Municipal for our benefit on normal commercial terms where no security over the Company's assets was granted in respect of the Loan. The Loan is exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2020.

AUDITOR

The financial statements of the Group for the year ended December 31, 2020 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 26, 2021

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, 2020.

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, 2020.

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, 2020.

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, 2020.

THE BOARD OF DIRECTORS

Board composition

The Board currently comprises three executive Directors, three non-executive Directors and five 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. Lu Hesheng

Mr. Huang James Chih-cheng

Mr. Ma Xiang

(resigned on March 24, 2021)

Ms. Zhou Lijie

(appointed on March 24, 2021)

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Mr. Chen Qunlin

Mr. Luo Zhuping

Mr. Ho Man

Ms. Liang Yanjun

Mr. Chen Xin

(appointed on January 21, 2021)

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, 2020, 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, 2020, the Board has held 9 meetings in total.

CORPORATE GOVERNANCE REPORT

The attendance records of the individual Directors at the meetings of the Board, Audit Committee, Nomination Committee, Remuneration Committee and Compliance Committee and the general meeting for the year ended December 31, 2020 are set out as follows:

Name of Directors	No. of Meetings Attended/Held					Annual General Meeting
	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Compliance Committee Meetings	
Executive Directors						
Mr. Bai Xiaojiang	9/9	—	2/2	—	—	1/1
Mr. Tan Leon Li-an	7/9	—	—	2/2	—	1/1
Mr. Wang Jisheng	9/9	—	2/2	—	—	1/1
Non-executive Directors						
Mr. Lu Hesheng	9/9	—	—	—	—	1/1
Mr. Huang James Chih-cheng	9/9	2/2	—	—	—	1/1
Mr. Ma Xiang (resigned on March 24, 2021)	9/9	—	—	—	—	1/1
Independent non-executive Directors						
Mr. Chen Qunlin	9/9	—	2/2	2/2	3/3	1/1
Mr. Luo Zhuping	9/9	2/2	2/2	2/2	3/3	1/1
Mr. Ho Man	9/9	2/2	2/2	—	3/3	1/1
Ms. Liang Yanjun	9/9	—	—	—	3/3	1/1

Except for the annual general meeting, the Company did not hold any other general meeting during the year ended December 31, 2020.

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.

CORPORATE GOVERNANCE REPORT

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

The Shareholders may, at any general meetings convened and held in accordance with the Articles of Association, remove a Director by ordinary resolution at any time before the expiration of his/her 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/her stead.

Directors' Responsibilities for Financial Statements

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

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

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

Responsibilities of and Delegation by the Board

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

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

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

Independent Non-Executive Directors

Mr. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man, Ms. Liang Yanjun and Mr. Chen Xin, 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, Ms. Liang Yanjun and Mr. Chen Xin meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent to the Company in accordance with the terms of such guidelines.

CORPORATE GOVERNANCE REPORT

Continuous Professional Development

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

During the year ended December 31, 2020, 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. Liang Yanjun, 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. Chen Qunlin, Mr. Luo Zhuping, Mr. Ho Man and Ms. Liang Yanjun have attended a training regarding Directors' duties, obligation of listed company, obligation of information disclosure and environmental, social and governance reporting.

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.

CORPORATE GOVERNANCE REPORT

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

BOARD COMMITTEES

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

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph 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 January 7, 2019. 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 four members, namely Mr. Ho Man, Mr. Luo Zhuping and Mr. Chen Xin, 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, 2020, 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, 2020, the Remuneration Committee held 2 meetings. It had reviewed the Company's remuneration policy and structure and the remuneration package for Directors and senior management.

CORPORATE GOVERNANCE REPORT

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, 2020, the Nomination Committee held 2 meetings. It had reviewed the re-appointment of directors, the structure, size and composition of the Board, the board diversity policy, and the retirement and rotation plan of the Directors and assessed the independence of each independent non-executive Director.

Compliance Committee

The Company has established the Compliance Committee with written terms of reference. The terms of reference of the Compliance Committee has been updated and published on the websites of the Stock Exchange and the Company on August 21, 2020. The updated terms of reference of the Compliance Committee includes review and monitor the environmental, social and corporate governance (“ESG”) functions and duties. 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 ESG policy. The Compliance Committee has authority to seek external counsel’s advice.

The Compliance Committee currently comprises four members, namely Ms. Liang Yanjun, Mr. Chen Qunlin, Mr. Luo Zhuping and Mr. Ho Man, all being the independent non-executive Directors. Ms. Liang Yanjun is the chairman of the Compliance Committee.

During the year ended December 31, 2020, the Compliance Committee held 3 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, senior management and other employees in respect of compliance and ESG matters, 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 9 to the audited consolidated financial statements. Save as disclosed therein, there are other 3 individuals of senior management. Pursuant to paragraph B.1.5 of the CG Code, their remuneration by band for the year ended December 31, 2020 is set out below:

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

EXTERNAL AUDITOR'S REMUNERATION

During the year ended December 31, 2020, 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	
	2020 RMB'000	2019 RMB'000
Services rendered for the Group		
Audit service	2,700	2,800
Interim results review	800	1,000
Other service	—	—
Total Fees	<u>3,500</u>	<u>3,800</u>

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.

CORPORATE GOVERNANCE REPORT

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 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 achieve 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 SFO 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, 2020, 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 were no significant risks identified 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, 2020.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The company secretary of the Company is Ms. Hu Yi (“**Ms. Hu**”). At present, Ms. Hu is responsible for investor relations, corporate finance and corporate governance of the Group.

In compliance with the requirements of Rule 3.29 of the Listing Rules, 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, 2020.

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 requisitioner(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 requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(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.

CORPORATE GOVERNANCE REPORT

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, 2020, 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 63 to 179, which comprise the consolidated statement of financial position as at December 31, 2020, 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, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 ("HKSA") 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS – *continued*

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of goodwill arising from acquisitions</i>	
<p>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 significant judgments and estimates exercised by the management.</p> <p>As disclosed in Note 17 to the consolidated financial statements, as at December 31, 2020, the carrying amount of goodwill amounted to approximately RMB861 million.</p> <p>As set out in Note 4 to the consolidated financial statements, the impairment assessment of goodwill is dependent on certain significant inputs and estimations that involve management's judgments, including the calculation of value in use of each cash-generating units ("CGUs") to which goodwill has been allocated. In estimate the value in use of the CGUs, key assumptions include projections of cash flows, growth rates and discount rates based on management's view of future business. Details of such estimations are disclosed in Note 17.</p>	<p>Our procedures in relation to the impairment assessment of goodwill arising from acquisitions included:</p> <ul style="list-style-type: none">• 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;• Obtaining the cash flow forecasts prepared by management, reviewing and discussing with management on the major assumptions adopted in the cash flow forecasts for each cash-generating unit and checking arithmetic accuracy of the forecast calculation;• 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;• Assessing the sensitivity analysis prepared by management on the significant assumptions to evaluate the extent of impact of these assumptions on the cash flow forecasts; and• Engaging our internal valuation expert to assess the discount rates used in the impairment assessment model by benchmarking against independent data.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS – *continued*

Key audit matter	How our audit addressed the key audit matter
<i>Provisions for litigation claims</i>	
<p>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.</p>	<p>Our procedures in relation to the provisions for litigation claims included:</p>
<p>As disclosed in Note 45 to the consolidated financial statements, the Group was subject to litigation claims amounting to approximately RMB58.46 million as at December 31, 2020. 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.</p>	<ul style="list-style-type: none">• 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 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.

INDEPENDENT AUDITOR'S REPORT

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

The Directors 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 determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.

INDEPENDENT AUDITOR'S REPORT

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, actions taken to eliminate threats or safeguards applied.

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 26, 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5	1,892,537	1,850,574
Operating expenditures			
Staff costs		(385,805)	(416,125)
Construction costs		(76,495)	(72,897)
Consumed materials and goods		(149,109)	(141,477)
Outsourced service costs		(52,906)	(54,418)
Marketing and sales channel costs		(36,072)	(38,671)
Depreciation and amortisation		(136,713)	(123,170)
Other general operating expenditures		(133,406)	(139,039)
Inventory changes		5,872	4,564
Profit from operations		927,903	869,341
Other income, gains and losses	6	61,707	88,632
Share of profit/(loss) of joint ventures		4	(176)
Finance costs	7	(9,525)	(11,128)
Profit before taxation	8	980,089	946,669
Income tax expense	10	(222,784)	(211,350)
Profit and total comprehensive income for the year		<u>757,305</u>	<u>735,319</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		620,064	578,579
Non-controlling interests		137,241	156,740
		<u>757,305</u>	<u>735,319</u>
		RMB cents	RMB cents
Earnings per share — Basic	12	<u>27.4</u>	<u>25.9</u>
— Diluted	12	<u>27.3</u>	<u>25.7</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property and equipment	13	567,924	549,072
Right-of-use assets	14	126,464	122,781
Investment property	15	6,509	6,509
Intangible assets	16	182,626	126,140
Goodwill	17	860,637	441,581
Financial assets at fair value through profit or loss	24	38,110	38,110
Deposits paid for acquisition of land use rights		89,404	9,054
Cemetery assets	18	1,798,059	1,519,449
Investment in an associate		750	750
Investment in joint ventures	20	50,709	35,741
Restricted deposits	19	61,403	56,268
Deferred tax assets	21	57,865	54,450
Other long-term assets		5,000	5,000
		3,845,460	2,964,905
Current assets			
Inventories	22	502,263	481,059
Trade and other receivables	23	113,503	106,475
Financial assets at fair value through profit or loss	24	982,927	417,580
Time deposits	25	—	8,459
Bank balances and cash	26	1,234,022	2,007,142
		2,832,715	3,020,715
Current liabilities			
Trade and other payables	27	648,760	598,306
Lease liabilities	31	21,206	19,630
Contract liabilities	29	55,876	47,317
Loans from non-controlling shareholders of subsidiaries	30	35,919	43,938
Income tax liabilities		160,275	134,669
Borrowings	28	13,860	22,500
		935,896	866,360
Net current assets		1,896,819	2,154,355
Total assets less current liabilities		5,742,279	5,119,260

(Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Contract liabilities	29	377,035	335,839
Other long-term liabilities		32,992	21,345
Loans from non-controlling shareholders of subsidiaries	30	—	6,000
Borrowings	28	—	13,860
Deferred tax liabilities	21	138,399	93,893
Lease liabilities	31	51,767	63,110
		<u>600,193</u>	<u>534,047</u>
Net assets		<u>5,142,086</u>	<u>4,585,213</u>
Capital and reserves			
Share capital	32	141,510	137,748
Reserves	33	4,426,371	3,905,322
		<u>4,567,881</u>	<u>4,043,070</u>
Equity attributable to owners of the Company		4,567,881	4,043,070
Non-controlling interests		574,205	542,143
		<u>5,142,086</u>	<u>4,585,213</u>
Total equity		<u>5,142,086</u>	<u>4,585,213</u>

The consolidated financial statements on page 63 to 179 were approved and authorized for issue by the Board of Directors on March 26, 2021 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, 2020

	Share capital	Treasury Shares	Share premium	Special reserve	Statutory surplus reserve	Other reserve	Share option reserve	Retained profits	Subtotal attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	134,920	—	1,232,702	84,667	131,067	(26,260)	81,056	1,874,279	3,512,431	538,452	4,050,883
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	578,579	578,579	156,740	735,319
Acquisition of a subsidiaries (Note 35)	—	—	—	—	—	—	—	—	—	6,610	6,610
Dividends recognised as distributions (Note 11)	—	—	(159,219)	—	—	—	—	—	(159,219)	—	(159,219)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(114,797)	(114,797)
Transfer to statutory surplus reserve	—	—	—	—	7,733	—	—	(7,733)	—	—	—
Capital contribution from non-controlling Interests	—	—	—	—	—	—	—	—	—	20,689	20,689
Acquisition of non-controlling interests of a subsidiary (note (a))	—	—	—	—	—	(79,749)	—	—	(79,749)	(65,635)	(145,384)
Repurchase and cancellation of shares	(4)	—	(230)	—	—	—	—	—	(234)	—	(234)
Disposal of partial interest in a subsidiary (note (b))	—	—	—	—	—	16	—	—	16	84	100
Exercise of share options	2,832	—	210,213	—	—	—	(33,538)	—	179,507	—	179,507
Share based compensation	—	—	—	—	—	—	11,739	—	11,739	—	11,739
At December 31, 2019	137,748	—	1,283,466	84,667	138,800	(105,993)	59,257	2,445,125	4,043,070	542,143	4,585,213
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	620,064	620,064	137,241	757,305
Acquisition of subsidiaries (Note 35)	—	—	—	—	—	—	—	—	—	8,960	8,960
Dividends recognised as distributions (Note 11)	—	—	(155,484)	—	—	—	—	—	(155,484)	—	(155,484)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	(139,406)	(139,406)
Transfer to statutory reserve	—	—	—	—	39,003	—	—	(39,003)	—	—	—
Capital contribution from non-controlling Interests	—	—	—	—	—	—	—	—	—	25,267	25,267
Shares purchased by trustee under the restricted share incentive scheme (Note 34(b))	—	(190,069)	2,358	—	—	—	—	—	(187,711)	—	(187,711)
Exercise of share options	3,762	—	294,327	—	—	—	(51,754)	—	246,335	—	246,335
Share based compensation	—	—	—	—	—	—	1,607	—	1,607	—	1,607
At December 31, 2020	141,510	(190,069)	1,424,667	84,667	177,803	(105,993)	9,110	3,026,186	4,567,881	574,205	5,142,086

Notes:

- (a) During the year of 2019, the Group entered into agreements with the non-controlling shareholders of two of its subsidiaries, to acquire 49% non-controlling interests in Beijing Temshine Cemetery Design Group Ltd. (北京天泉佳境陵園建築設計有限公司) (“Beijing Temshine”) and 40% non-controlling interests in Chongqing Baitayuan Funeral and Burial Development Co., Ltd. (重慶白塔園殯葬開發有限公司) (“Chongqing Baitayuan”) with total consideration of RMB145,384,000. The difference between non-controlling interests and fair value of consideration is recognised directly in equity under “other reserve” and attributed to owners of the Company.
- (b) In June 2019, the Group disposed 10% equity interests in Ningbo Yongyi Funeral Services Company Limited (寧波永逸殯葬禮儀服務有限公司), which is a subsidiary controlled by the Group before and after the transaction.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	980,089	946,669
Adjustments for:		
Finance costs	9,525	11,128
Interest income	(33,788)	(52,604)
Gain from changes in fair value of financial assets mandatorily measured at FVTPL	(18,638)	(14,274)
Depreciation of property and equipment	52,290	46,157
Amortisation of right-of-use assets	23,200	21,569
Amortisation of cemetery assets	54,122	48,120
Amortisation of intangible assets	7,101	7,324
Net loss (gain) on disposal of property and equipment	1,232	(772)
Share of (gain) loss of joint ventures	(4)	176
Bargain purchase gain from acquisition	(204)	—
Expense recognized in respect of equity-settled share-based compensation	1,607	11,739
Operating cash flows before movements in working capital	1,076,532	1,025,232
Increase in restricted deposits	(5,135)	(9,416)
Increase in cemetery assets and inventories	(93,071)	(109,492)
Increase in deposits paid for acquisition of land use rights as cemetery assets	(80,350)	—
Increase in trade and other receivables	(11,938)	(48,067)
Increase in trade and other payables	97,861	34,828
Increase in contract liabilities	47,354	45,913
Cash generated from operations	1,031,253	938,998
Income taxes paid	(208,904)	(231,914)
NET CASH FROM OPERATING ACTIVITIES	822,349	707,084

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES		
Purchase of and deposits paid for property and equipment and landscape and facilities	(100,209)	(86,119)
Purchase of computer software	(6,209)	(5,245)
Payment for contract fee and property and equipment for operating funeral and burial projects	(11,785)	(98,127)
Payment to right-of-use assets	—	(229)
Proceeds on disposal of property and equipment	2,283	1,129
Receipt of project deposit returned	—	1,050
Acquisition of subsidiaries	(484,312)	(41,149)
Repayment of entrusted loans	2,000	3,000
Interest received	37,627	43,630
Received gain from fair value changes of financial assets at FVTPL	23,371	5,929
Withdrawal of time deposits	233,959	154,676
Placement of time deposits	(225,500)	(114,837)
Purchase of financial assets at FVTPL	(1,494,627)	(433,980)
Withdrawal of financial assets at FVTPL	929,280	593,821
Investment in joint ventures	(14,964)	(35,917)
NET CASH USED IN INVESTING ACTIVITIES	(1,109,086)	(12,368)
FINANCING ACTIVITIES		
New borrowings raised	—	20,000
Repayment of borrowings	(42,500)	(87,500)
Loans raised from non-controlling shareholders of subsidiaries	—	6,000
Repayments to non-controlling interests	(14,000)	(15,000)
Capital contribution from non-controlling interests	25,267	20,689
Interest paid	(7,030)	(10,921)
Repayments of loan from the third parties	(54,368)	—
Acquisition of non-controlling interests of a subsidiary	(135,151)	(3,063)
Dividends paid to non-controlling interests	(139,406)	(114,797)
Dividends paid to owners of the Company	(155,484)	(159,219)
Proceeds from exercise of share options	246,335	179,507
Payment for repurchase of ordinary shares	—	(234)
Disposal of partial interest in a subsidiary	—	100
Payment for shares purchased by trustee under the restricted share incentive scheme	(187,711)	—
Repayments of leases liabilities	(22,085)	(16,537)
Repayments of other long-term liabilities	(250)	(250)
NET CASH USED IN FINANCING ACTIVITIES	(486,383)	(181,225)

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
	RMB'000	RMB'000
NET (DECREASE) INCREASE CASH AND CASH EQUIVALENTS	(773,120)	513,491
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,007,142</u>	<u>1,493,651</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	<u>1,234,022</u>	<u>2,007,142</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

1. GENERAL INFORMATION

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 42.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standard Board (“IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>

In addition, the Group has early applied the Amendment to IFRS 16 *Covid-19-Related Rent Concessions*.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

2.1 Impacts on application of Amendments to IAS 1 and IAS 8 Definition of Material

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2.2 Impacts on application of Amendments to IFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

2. 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 that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts and the related Amendments</i> ¹
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ⁴
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ¹
Amendments to IAS 1 and Practice Statement 2	<i>IFRS Disclosure of Accounting Policies</i> ¹
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
Amendments to IFRS Standards	<i>Annual Improvements to IFRS Standards 2018–2020</i> ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

The Directors anticipate that the application of all the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Basis of preparation of consolidated financial statements – *continued*

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each 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 accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies

Basis of consolidation

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Basis of consolidation – continued

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 or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Business combinations or asset acquisitions – continued

Business combinations – continued

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);
- 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; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 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 is not allocated to any asset, including goodwill, that 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Revenue from contracts with customers

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.

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.

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 inception date. 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 expects to be entitled in exchange for transferring the promised goods or services to customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Revenue from contracts with customers – continued

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.

Contract costs

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES — *continued*

3.2 Significant accounting policies — *continued*

Leases — continued

The Group as a lessee — continued

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that directly related to cemetery in cemetery assets and transfer to inventory upon commencement of development.

The Group presents right-of-use assets that do not meet the definition of investment property and cemetery assets or inventory as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* (“IFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Leases – continued

The Group as a lessee – continued

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES — *continued*

3.2 Significant accounting policies — *continued*

Leases — continued

The Group as a lessee — continued

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Foreign currencies

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. 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 related to income 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. Such grants are presented under "other income".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Employee benefits

Retirement benefit costs

Payments to the state-managed retirement benefit scheme and Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Schemes Ordinance in December 2000 (the “MPF Scheme”) which are defined contribution schemes, are charged as an expense when employees have rendered services entitling them to the contributions.

Short-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-based payments reserve). At the end of each 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-based payments reserve.

When the share options are exercised, the amount previously recognized in share-based payments 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-based payments reserve will be transferred to retained profits.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Taxation – continued

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

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

Property and equipment

Property and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, 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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Property and equipment – continued

When the Group makes payments for ownership interests of properties which include both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost of assets 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 is property held for capital appreciation.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment property is included in profit or loss for the period in which it 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Intangible assets – continued

Intangible assets acquired separately – continued

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation 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 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 property and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets 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 property and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill – continued

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units) 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 or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

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 amortisation and net realizable value prior to the commencement of development of the cemetery. Amortisation for cemetery assets is provided on a straight-line basis over the estimated useful life of the cemetery assets and is recognized in profit or loss.

Upon commencement of development of an area within 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.

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.

The amount recognised as a provision is 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at 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

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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – *continued*

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – *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

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, time deposits, bank balances and cash and restricted deposits) which are subject to impairment assessment under IFRS 9. 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, 12-month ECL (“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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – *continued*

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

Despite the foregoing, 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.

(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).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – *continued*

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

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – *continued*

(v) Measurement and recognition of ECL – *continued*

Lifetime ECL for certain trade and other receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial liabilities and equity

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

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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, 2020, the carrying amounts of goodwill are approximately RMB860,637,000 (2019: RMB441,581,000). Details of recoverable amount calculation are disclosed in Note 17.

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 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, 2020 are disclosed in Note 45. As at December 31, 2020, the Directors 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Estimated useful lives and impairment of property and equipment, right-of-use assets and intangible assets

The Group's management determines the estimated useful lives and the depreciation or amortisation method in determining the related depreciation or amortisation charges for its property and equipment, right-of-use assets and intangible assets. This estimate is based on the management's experience of the actual useful lives of property and equipment, right-of-use assets 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, right-of-use assets and intangible assets may not be recoverable. Management will increase the depreciation or amortisation 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, right-of-use assets 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, 2020, the carrying amounts of property and equipment are approximately RMB567,924,000 (2019: RMB549,072,000). No impairment indicators on property and equipment were identified during the years ended December 31, 2020 and 2019. Details of movement are disclosed in Note 13. As at December 31, 2020 the carrying amounts of intangible assets are approximately RMB182,626,000 (2019: RMB126,140,000). No impairment was recorded for the intangible assets during the years ended December 31, 2020 and 2019. Details of movement are disclosed in Note 16. As at December 31, 2020, the carrying amounts of right-of-use assets are approximately RMB126,464,000 (2019: RMB122,781,000). No impairment indicators on right-of-use assets during the year ended December 31, 2020 and 2019. Details of movement are disclosed in Note 14.

Estimated cemetery maintenance income

The Group estimates cemetery maintenance income to be separated performance obligation from the sale of burial plots each period. The consideration of cemetery maintenance income is determined by the expected cost plus a margin approach. The expected cost is based on cost of maintaining the cemetery over the service period, which includes labour cost, general and administrative expenses, and cost of maintenance of landscaping. 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 cemetery maintenance service price. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released based on expected cost over the period of service. Contract liability is reviewed at the end of each reporting period. If it is considered that cemetery maintenance income to be released is insufficient to cover the expected cost of maintenance, provision will be made accordingly. As at December 31, 2020, the carrying amounts of cemetery maintenance income liability are approximately RMB404,595,000 (2019: RMB362,279,000), as disclosed in Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

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, such cost was not significant during the years ended December 31, 2020 and 2019.

5. REVENUE AND SEGMENT INFORMATION

A. For the year ended December 31, 2020

(i) *Disaggregation of revenue from contracts with customers*

	2020 RMB'000	2019 RMB'000
Geographical markets		
Mainland China	<u>1,892,537</u>	<u>1,850,574</u>
Timing of revenue recognition		
A point in time	<u>1,839,213</u>	<u>1,793,878</u>
Over time	<u>53,324</u>	<u>56,696</u>
Total	<u>1,892,537</u>	<u>1,850,574</u>

(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 been 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 burial plots 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 service 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 based on expected cost over the period of service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

5. REVENUE AND SEGMENT INFORMATION – *continued*

A. For the year ended December 31, 2020 – *continued*

(ii) *Performance obligations for contracts with customers – continued*

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 service 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, which gives rise to contract liabilities at the inception of a contract, until the revenue is recognised when the funeral service is offered.

(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, 2020 and the expected timing of recognising revenue are as follows:

	Cemetery Maintenance Services	
	2020	2019
	RMB'000	RMB'000
Within one year	27,560	26,440
More than one year	377,035	335,839
Total	404,595	362,279

Regarding the nature of the pre-need contracts amounted to RMB28,316,000 (2019: RMB20,877,000), the expected timing of revenue recognition is based on the request of the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

5. REVENUE AND SEGMENT INFORMATION – *continued*

B. Operating Segments

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.

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the year ended December 31, 2020:</i>						
External sales	1,579,143	252,938	60,456	1,892,537	—	1,892,537
Inter-segment sales	—	—	23,616	23,616	(23,616)	—
Total	1,579,143	252,938	84,072	1,916,153	(23,616)	1,892,537
Segment profit	901,055	28,006	3,321	932,382	(4,479)	927,903
Other income, gains and losses						61,707
Finance costs						(9,525)
Share of profit of joint ventures						4
Profit before taxation						<u>980,089</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

5. REVENUE AND SEGMENT INFORMATION – *continued*

B. Operating Segments – *continued*

Segment revenues and results – continued

	Burial services RMB'000	Funeral services RMB'000	Other services RMB'000	Segment Total RMB'000	Eliminated RMB'000	Total RMB'000
<i>For the year ended</i>						
<i>December 31, 2019:</i>						
External sales	1,551,394	256,928	42,252	1,850,574	—	1,850,574
Inter-segment sales	—	—	10,964	10,964	(10,964)	—
Total	1,551,394	256,928	53,216	1,861,538	(10,964)	1,850,574
Segment profit	843,543	26,241	1,794	871,578	(2,237)	869,341
Other income, gains and losses						88,632
Finance costs						(11,128)
Share of loss of a joint venture						(176)
Profit before taxation						<u>946,669</u>

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are same as those of the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, gains and losses, share of loss 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.

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:

	2020 RMB'000	2019 RMB'000
PRC	<u>1,892,537</u>	<u>1,850,574</u>

Information about major customers

No single customer accounted for 10% or more of the Group's revenue during the years ended December 31, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

6. OTHER INCOME, GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Other income:		
Interest income	33,788	52,604
Government grants (note)	19,657	19,586
	<u>53,445</u>	<u>72,190</u>
Net gains and losses:		
Net (loss) gain on disposal of property and equipment	(1,232)	772
Donation	(1,670)	(816)
Net foreign exchange (loss) gain	(6,411)	3,327
Gain from changes in fair value of financial assets mandatorily measured at FVTPL	18,638	14,274
Bargain purchase gain (Note 35)	204	—
Others	(1,267)	(1,115)
	<u>8,262</u>	<u>16,442</u>
Other income, gains and losses	<u><u>61,707</u></u>	<u><u>88,632</u></u>

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

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on:		
— borrowings	2,579	4,773
— loans from non-controlling shareholders of subsidiaries (Note 30)	2,778	2,995
— lease liabilities	4,168	3,172
— others	—	188
	<u>9,525</u>	<u>11,128</u>
Total finance costs	<u><u>9,525</u></u>	<u><u>11,128</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2020 RMB'000	2019 RMB'000
Staff costs, including Directors' remuneration (Note 9)		
Salaries, wages, bonus and other benefits	377,487	378,422
Contributions to retirement benefits schemes (Note 39)	6,711	25,964
Share-based compensation expenses	1,607	11,739
	<u>385,805</u>	<u>416,125</u>
Total staff costs		
Depreciation of property and equipment	52,290	46,157
Amortisation of intangible assets	7,101	7,324
Amortisation of cemetery assets	54,122	48,120
Depreciation of right-of-use assets	23,200	21,569
Auditor's remuneration	3,500	3,800
	<u>138,213</u>	<u>127,970</u>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2020 RMB'000	2019 RMB'000
Directors' fees	8,880	8,880
Other emoluments		
Discretionary bonus	2,000	2,000
Contributions to retirement benefits scheme	90	164
Share-based compensation expenses	368	2,663
	<u>11,338</u>	<u>13,707</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

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

For the year ended December 31, 2020

	Chief Executive			
	Wang Jisheng	Bai Xiaojiang	Tan Leon Li-an	Total
	RMB'000	RMB'000	RMB'000	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	45	45	—	90
Share-based compensation expenses	161	161	—	322
Sub-total	<u>4,806</u>	<u>4,806</u>	<u>240</u>	<u>9,852</u>

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	Lu Hesheng	Ma Xiang	Total
	RMB'000	RMB'000	RMB'000	RMB'000
B) Non-Executive Directors				
Directors' fees	240	240	240	720
Discretionary bonus	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—
Share-based compensation expenses	—	16	—	16
Sub-total	<u>240</u>	<u>256</u>	<u>240</u>	<u>736</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

For the year ended December 31, 2020 – *continued*

	Chen Qunlin RMB'000	Luo Zhuping RMB'000	Ho Man RMB'000	Liang Yanjun 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 compensation expenses	10	10	10	—	30
Sub-total	<u>10</u>	<u>250</u>	<u>250</u>	<u>240</u>	<u>750</u>

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, 2019

	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	82	82	—	164
Share-based compensation expenses	1,114	1,114	19	2,247
Sub-total	<u>5,796</u>	<u>5,796</u>	<u>259</u>	<u>11,851</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

For the year ended December 31, 2019 – *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 compensation expenses	—	117	19	136
Sub-total	<u>240</u>	<u>357</u>	<u>259</u>	<u>856</u>

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 (note)	Liang YanJun RMB'000 (note)	Total RMB'000
C) Independent Non-Executive Directors						
Directors' fees	—	240	240	220	20	720
Discretionary bonus	—	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—	—
Share-based compensation expenses	70	70	70	70	—	280
Sub-total	<u>70</u>	<u>310</u>	<u>310</u>	<u>290</u>	<u>20</u>	<u>1,000</u>

Note: Wu Jianwei resigned on November 29, 2019 and Liang YanJun was appointed as independent non-executive director of the Company on November 29, 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

For the year ended December 31, 2019 – *continued*

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

The five highest paid individuals of the Group included two directors (2019: two) for the year ended December 31, 2020. The remuneration of the remaining three (2019: three) individuals during the year is as follows:

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	3,990	4,550
Discretionary bonus	1,700	1,700
Contributions to retirement benefits scheme	89	135
Share-based compensation expenses	81	843
	<u>5,860</u>	<u>7,228</u>

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

	Number of individuals	
	2020	2019
Hong Kong Dollars (“HK\$”) 2,000,001–HK\$2,500,000	3	1
HK\$2,500,001–HK\$3,000,000	–	1
HK\$3,000,001–HK\$3,500,000	–	1
HK\$5,500,001–HK\$6,000,000	2	–
HK\$6,500,001–HK\$7,000,000	–	2
	<u>5</u>	<u>5</u>

10. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
PRC Enterprise Income Tax (“PRC EIT”)		
Current year	234,313	227,326
Over provision in prior years	(3,807)	(4,669)
Deferred tax (Note 21)	(7,722)	(11,307)
	<u>222,784</u>	<u>211,350</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

10. INCOME TAX EXPENSE – *continued*

The tax charge for the years ended December 31, 2020 and 2019 can be reconciled to the profit before taxation as follows:

	2020 RMB'000	2019 RMB'000
Profit before taxation	<u>980,089</u>	<u>946,669</u>
Tax at the PRC EIT rate of 25% (2019: 25%)	245,022	236,667
Tax effect of expenses not deductible for tax purpose	4,694	6,856
Tax effect of income not taxable for tax purpose	(4,654)	(5,930)
Tax effect of different tax rates	(2,069)	(1,139)
Tax effect of tax losses not recognized	7,921	8,999
Tax effect of losses of offshore entities not recognized	1,775	1,696
Utilization of tax losses previously not recognized	(4,182)	(9,213)
Tax deduction on exercised share options (note (a))	(18,939)	(17,414)
Over provision in prior years	(3,807)	(4,669)
Effect of research and development expense (“R&D expenses”) deduction (note (b))	<u>(2,977)</u>	<u>(4,503)</u>
Income tax expense for the year	<u>222,784</u>	<u>211,350</u>

Notes:

- (a) During the years ended December 31, 2020 and December 31, 2019, 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.
- (b) Expenditure on research and development activities is recognised as an expense in the period in which it is incurred. From January 1, 2018 to December 31, 2020, enterprises incurring R&D expenses for new technology, new products or new craftsmanship can enjoy an extra 75% deduction in addition to the actual R&D expenses incurred.

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 the end of year 2020. Certain subsidiaries are regarded as small entities and are subject to lower income tax rate of 10% during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

10. INCOME TAX EXPENSE – *continued*

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 or derived from Hong Kong during the years ended December 31, 2020 and 2019.

11. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends for ordinary shareholders of the Company recognized as distributions during the year		
2020 Interim – HK3.28cents (2019: 2019 Interim – HK4.21 cents) per share	66,508	85,927
2019 Final – HK4.21cents (2019: 2018 Final – HK3.72 cents) per share	88,976	73,292
	155,484	159,219

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2020 of HK5.53 cents per share has been proposed by the Directors 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 Monday, June 21, 2021.

12. EARNINGS PER SHARE

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

	2020	2019
Profit for the year attributable to owners of the Company (RMB'000)	620,064	578,579
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	620,064	578,579
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,263,069,730	2,235,451,641
Effect of dilutive potential ordinary shares:		
Share options	11,224,479	18,994,245
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,274,294,209	2,254,445,886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

13. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2019	415,001	40,646	89,037	43,151	148,173	736,008
Additions	3,894	4,711	3,241	1,893	59,019	72,758
Acquired on acquisitions of subsidiaries (Note 35)	2,728	—	—	—	—	2,728
Transfer to intangible assets upon completion	—	—	—	—	(24,900)	(24,900)
Transfer	14,510	2,565	852	—	(17,927)	—
Disposals	—	—	(1,328)	(4,874)	—	(6,202)
At December 31, 2019	436,133	47,922	91,802	40,170	164,365	780,392
Additions	4,806	4,850	13,276	3,244	44,321	70,497
Acquired on acquisitions of subsidiaries (Note 35)	53,804	2,008	994	787	3,184	60,777
Transfer to intangible assets upon completion	—	—	—	—	(58,151)	(58,151)
Transfer	27,155	1,149	8,240	—	(36,544)	—
Disposals	—	(1,018)	(3,676)	(2,805)	—	(7,499)
At December 31, 2020	521,898	54,911	110,636	41,396	117,175	846,016
DEPRECIATION						
At January 1, 2019	99,399	22,427	41,148	28,034	—	191,008
Provided for the year	22,203	8,843	10,204	4,907	—	46,157
Eliminated on disposals	—	—	(1,324)	(4,521)	—	(5,845)
At December 31, 2019	121,602	31,270	50,028	28,420	—	231,320
Provided for the year	27,056	9,672	11,889	3,673	—	52,290
Eliminated on disposals	—	(303)	(3,040)	(2,175)	—	(5,518)
At December 31, 2020	148,658	40,639	58,877	29,918	—	278,092
CARRYING VALUES						
At December 31, 2019	314,531	16,652	41,774	11,750	164,365	549,072
At December 31, 2020	373,240	14,272	51,759	11,478	117,175	567,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

13. PROPERTY AND EQUIPMENT – *continued*

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

Buildings	Over the shorter of the remaining lease term of land and useful life of buildings of 30 years
Leasehold improvements	19.00% – 20.00%
Furniture, fixtures and equipment	9.50% – 31.67%
Motor vehicles	19.00% – 25.00%

As at December 31, 2020, the formal title certificates for certain buildings of the Group with carrying value of approximately RMB144,287,000 (2019: RMB132,483,000) had not been obtained. Certain buildings of Wuyuan Wanshoushan Cemetery was restricted by court with carrying amounts of RMB7,903,000 (2019: RMB8,595,000).

14. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Total RMB'000
As at December 31, 2020			
Carrying amount	62,975	63,489	126,464
As at December 31, 2019			
Carrying amount	46,247	76,534	122,781
For the year ended December 31, 2020			
Depreciation charge	(1,934)	(21,266)	(23,200)
For the year ended December 31, 2019			
Depreciation charge	<u>(1,780)</u>	<u>(19,789)</u>	<u>(21,569)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

14. RIGHT-OF-USE ASSETS – *continued*

	2020 RMB'000	2019 RMB'000
Expense relating to short-term leases	8,254	4,729
Variable lease payments not included in the measurement of lease liabilities	179	250
Total cash outflow for leases	26,101	23,514
Additions to right-of-use assets	<u>26,883</u>	<u>19,261</u>

For both years, the Group leases land and properties for its operations. Lease contracts are entered into for fixed term of 1 year to 25 years (2019: 3 months to 25 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for properties. As at December, 31 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases entered during the year.

Restrictions or covenants on leases

In addition, lease liabilities of RMB72,973,000 (2019: RMB82,740,000) are recognised with related right-of-use assets of RMB126,464,000 (2019: RMB122,781,000) as at December 31, 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

15. INVESTMENT PROPERTY

	RMB'000
FAIR VALUE	
At January 1, 2019, December 31, 2019 and January 1, 2020	6,509
Addition	—
Net increase in fair value recognized in profit or loss	—
	<hr/>
At December 31, 2020	<u>6,509</u>

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, the fair value of investment property as of December 31, 2020 and December 31, 2019 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, 2020 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.

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 (2019: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

16. INTANGIBLE ASSETS

	Computer software RMB'000	Franchises agreement RMB'000	License for provision of funeral services RMB'000	Total RMB'000
COST				
At January 1, 2019	16,275	—	11,808	28,083
Transfer from construction in progress	—	24,900	—	24,900
Additions	<u>2,375</u>	<u>84,546</u>	<u>—</u>	<u>86,921</u>
At December 31, 2019	<u>18,650</u>	<u>109,446</u>	<u>11,808</u>	<u>139,904</u>
Transfer from construction in progress	—	58,151	—	58,151
Additions	<u>5,436</u>	<u>—</u>	<u>—</u>	<u>5,436</u>
At December 31, 2020	<u>24,086</u>	<u>167,597</u>	<u>11,808</u>	<u>203,491</u>
AMORTISATION				
At January 1, 2019	6,440	—	—	6,440
Provided for the year	<u>3,378</u>	<u>3,946</u>	<u>—</u>	<u>7,324</u>
At December 31, 2019	<u>9,818</u>	<u>3,946</u>	<u>—</u>	<u>13,764</u>
Provided for the year	<u>4,868</u>	<u>2,233</u>	<u>—</u>	<u>7,101</u>
At December 31, 2020	<u>14,686</u>	<u>6,179</u>	<u>—</u>	<u>20,865</u>
CARRYING VALUES				
At December 31, 2019	<u>8,832</u>	<u>105,500</u>	<u>11,808</u>	<u>126,140</u>
At December 31, 2020	<u>9,400</u>	<u>161,418</u>	<u>11,808</u>	<u>182,626</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

16. INTANGIBLE ASSETS – *continued*

Franchises agreement mainly represents the operation right obtained from third parties in accordance with a management service agreement, pursuant to which the Group is entitled to operate a funeral parlour or cemetery owned by the third party, and generate revenue from various services provided. The franchise agreements are amortized over the agreed service period. Additionally, the upgrade and construction of relevant property and equipment owned by the third party is reclassified from construction in progress upon the completion, which constitutes the cost of such franchise right under the management service agreement. Franchise right has finite useful life and is amortized on a straight-line basis over its estimated useful life of 30 to 40 years.

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, 2020 and 2019, 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, 2020, 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% (2019: 14%) 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 3% (2019: 3%) per annum. The growth rates are by reference to industry growth forecasts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

17. GOODWILL

For the purposes of impairment testing, goodwill has been allocated to each of the individual CGUs relating to 19 subsidiaries (2019: 17). During the years ended December 31, 2020 and 2019, the management of the Group determines that there is no impairment of any of its CGUs containing goodwill. The movements of goodwill for the years ended December 31, 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
COST		
At January 1	441,581	428,021
Arising from acquisition of subsidiaries (Note 35)	419,056	13,560
At December 31	<u>860,637</u>	<u>441,581</u>

The carrying amounts of goodwill as at December 31, 2020 and 2019 are as follows:

	2020 RMB'000	2019 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	12,903
Guizhou Tianyuanshan	19,123	19,123
Heling'er Anyou Cemetery	35,721	35,721
Hubei Tiansheng Cemetery	13,560	13,560
Jinsha Fuze	66,176	—
Harbin Mingxiyuan Cemetery	352,880	—
	<u>860,637</u>	<u>441,581</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

17. GOODWILL – *continued*

In addition to goodwill above, property, plant and equipment, intangible assets and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

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 projections of cash flows, growth rates and discount rates based on management's view of future business. 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% (2019: 14%). Cash flow beyond that ten-year period has been extrapolated using a steady 3% 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, Helinge'er Anyou Cemetery, Hubei Tiansheng Cemetery, Jinsha Fuze and Harbin Mingxiyuan Cemetery to exceed the aggregate recoverable amount of the respective CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

18. CEMETERY ASSETS

	Land cost RMB'000	Landscape facilities RMB'000	Development cost RMB'000	Total RMB'000
COST				
At January 1, 2019	1,054,479	253,553	317,473	1,625,505
Additions	84,830	25,815	24,910	135,555
Acquired on acquisitions of subsidiaries (Note 35)	23,236	4,808	2,991	31,035
Transfer to inventories	<u>(11,428)</u>	<u>(3,479)</u>	<u>(4,590)</u>	<u>(19,497)</u>
At December 31, 2019	1,151,117	280,697	340,784	1,772,598
Additions	2,192	38,490	50,403	91,085
Acquired on acquisitions of subsidiaries (Note 35)	211,463	14,650	26,364	252,477
Transfer to inventories	<u>(9,111)</u>	<u>(2,205)</u>	<u>(2,797)</u>	<u>(14,113)</u>
At December 31, 2020	<u>1,355,661</u>	<u>331,632</u>	<u>414,754</u>	<u>2,102,047</u>
AMORTISATION				
At January 1, 2019	110,866	66,360	32,430	209,656
Provided for the year	25,861	16,071	6,188	48,120
Eliminated on transfer	<u>(1,717)</u>	<u>(1,760)</u>	<u>(1,150)</u>	<u>(4,627)</u>
At December 31, 2019	135,010	80,671	37,468	253,149
Provided for the year	30,222	15,298	8,602	54,122
Eliminated on transfer	<u>(1,848)</u>	<u>(892)</u>	<u>(543)</u>	<u>(3,283)</u>
At December 31, 2020	<u>163,384</u>	<u>95,077</u>	<u>45,527</u>	<u>303,988</u>
CARRYING VALUES				
At December 31, 2019	<u>1,016,107</u>	<u>200,026</u>	<u>303,316</u>	<u>1,519,449</u>
At December 31, 2020	<u>1,192,277</u>	<u>236,555</u>	<u>369,227</u>	<u>1,798,059</u>

The land cost mainly represents leasehold land located in Mainland China having finite useful lives which are amortized on a straight-line basis over the lease terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

18. CEMETERY ASSETS – *continued*

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

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

19. 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.

20. INVESTMENTS IN JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Cost of investment in joint ventures	<u>50,709</u>	<u>35,741</u>

Details of each of the Group's joint ventures at the end of the reporting period are as follow:

Name of entity [#]	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Cost of investment by the Group		Principal activity
			2020 %	2019 %	2020 %	2019 %	2020 RMB'000	2019 RMB'000	
Jiaxing Fuji Equity Investment Partnership (Limited Partnership) 嘉興福冀股權投資合夥企業(有限合夥) ("Jiaxing Fuji")	PRC	PRC	49.89	49.89	49.89	49.89	49,882	34,917	Investment holding
Zhengzhou Baishan Fushou Life Culture Service Co., Ltd. 鄭州百善福壽生命文化福壽文化服務有限公司	PRC	PRC	50	50	50	50	827	824	Investment holding

[#]: The English names of both joint ventures established in the PRC are translated for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020 and 2019:

	Contract liabilities RMB'000	Tax losses RMB'000	Fair value adjustment RMB'000 (note)	Total RMB'000
At January 1, 2019	31,123	12,158	(92,706)	(49,425)
Acquisitions of subsidiaries (Note 35)	—	—	(1,325)	(1,325)
Credit to profit or loss	4,315	4,795	2,197	11,307
At December 31, 2019	35,438	16,953	(91,834)	(39,443)
Acquisitions of subsidiaries (Note 35)	—	—	(48,813)	(48,813)
Credit to profit or loss	4,917	(1,488)	4,293	7,722
At December 31, 2020	<u>40,355</u>	<u>15,465</u>	<u>(136,354)</u>	<u>(80,534)</u>

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

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:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	57,865	54,450
Deferred tax liabilities	(138,399)	(93,893)
	<u>(80,534)</u>	<u>(39,443)</u>

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 the PRC subsidiaries and offshore subsidiaries of approximately RMB154,858,000 (2019: RMB145,625,000) as at December 31, 2020. Deferred tax assets have been recognized in respect of approximately RMB61,865,000 (2019: RMB67,814,000) of such losses as at December 31, 2020. No deferred tax assets have been recognized in respect of the remaining approximately RMB92,993,000 (2019: RMB80,175,000) as at December 31, 2020 due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

21. DEFERRED TAXATION – *continued*

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

	2020 RMB'000	2019 RMB'000
2020	—	203
2021	2,484	2,484
2022	3,660	3,789
2023	8,698	17,293
2024	14,695	22,218
2025	20,190	—
	49,727	45,987

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 RMB3,111,164,000 (2019: RMB2,493,535,000) 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. INVENTORIES

	2020 RMB'000	2019 RMB'000
Burial plots	354,966	335,258
Tombstone	94,694	93,562
Others	52,603	52,239
	502,263	481,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

23. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables from contract with customers	63,265	56,480
Other receivables comprise:		
Prepayments and rental deposits on properties	2,369	1,511
Staff advances	3,492	3,091
Entrusted loan (note)	6,950	8,950
Deposit for new projects	4,502	5,539
Prepayments to suppliers	19,602	8,751
Interest receivables	1,772	10,344
Others	11,551	11,809
	113,503	106,475

Note: As of December 31, 2020, the Group has advanced an unsecured loan amounting to RMB6,950,000 (2019: RMB8,950,000) 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 service. 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:

	2020 RMB'000	2019 RMB'000
Within one year	54,969	52,510
Over one year but less than two years	7,270	668
Over two years but less than three years	660	—
Over three years but less than four years	366	3,302
	63,265	56,480

Certain portion of trade receivables of sales of cremation machines with instant settlement arrangement is not considered past due as the Group maintains good relationship with the customers and do not notice any delay or expected delay in payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

23. TRADE AND OTHER RECEIVABLES – *continued*

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 are of the view that no allowance is required.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2020 RMB'000	2019 RMB'000
Unlisted cash management products (a)	982,927	417,580
Equity investment (b)	38,110	38,110
	<u>1,021,037</u>	<u>455,690</u>
Analysed for reporting purposes as:		
Current assets	982,927	417,580
Non-current assets	38,110	38,110
	<u>1,021,037</u>	<u>455,690</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

(a) Unlisted cash management products

During the year, the Group entered into a number of cash management products as part of its treasury management.

Details of the cash management products as at December 31, 2020 are as follows:

Bank	Name of products	Currency	Amount RMB'000	Term/call date	Expected yield rate	Principal- guaranteed
Shanghai Pudong Development Bank	Xin Xiang Li (鑫享利系列)	RMB	1,300	Redeemable on call after 180 work days on work day	3.60%	N
Shanghai Pudong Development Bank	Zhou Zhou Xiang Ying Zeng Li (“周周享盈增利” No.1 (note))	RMB	167,000	7 days cycle	3.07%	N
Shanghai Pudong Development Bank	Yue Yue Xiang Ying Zeng Li (“月月享盈增利” No.1 (note))	RMB	51,000	Redeemable on call after 30 work days on work day	3.35%	N
Shanghai Pudong Development Bank	Li Duo Duo E Lu Fa (“利多多E路發”) B (note)	RMB	109,795	Redeemable on call after 14 work days on work day	1.1%–2.85%	N
Shanghai Pudong Development Bank	Tian Tian Li Pu Hui Plan (“天添利普惠計劃” (note))	RMB	26,000	Redeemable on call after 1 work day on work day	2.92%	N
Shanghai Rural Commercial Bank	Yue Yue Xing Li 月月鑫利(雙月)	RMB	100,000	25/02/2021	3.41%	N
Industrial Bank	Smart deposit (智能存款)	RMB	144,132	Redeemable on call after 1 work day on work day	2.03%	N
China Construction Bank	Qian Yuan-Ri Xing Yue Yi (乾元-日鑫月溢)	RMB	80,000	Redeemable on call after 1 work day on work day	2.70%	N
China Construction Bank	Qian Yuan-Ri Ri Zeng Li (乾元-日日增利)	RMB	200,000	Redeemable on call after 1 work day on work day	2.90%	N
China Construction Bank	Ri Ri Xing (日日薪)	RMB	2,000	Redeemable on call after 1 work day on work day	3.10%	N
Bank of Shanghai	Yi Jing Ling (“易精靈”) (note)	RMB	50,000	Redeemable on call after 1 work day on work day	3.20%	N
Minsheng Bank	Sui Xiang Cun (隨享存)	RMB	5,000	7 days cycle	2.03%	N
Shanghai Pudong Development Bank	Cai Fu Ban Che (財富班車進取) No.3 (note)	RMB	2,200	Fixed in 90 days	3.50%	N
Shanghai Pudong Development Bank	Cai Fu Ban Che (財富班車進取) No.4 (note)	RMB	8,000	Fixed in 180 days	3.50%	N
Shanghai Pudong Development Bank	Yue Ying Li (悅盈利6個月定開 T型)	RMB	5,500	Fixed in 180 days	3.65%	N
Shanghai Pudong Development Bank	Structured deposit (結構性存款)	RMB	31,000	27/03/2021	1.65%~3.7%	N
Total		RMB	982,927			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

(a) Unlisted cash management products – *continued*

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

The cash management products have been accounted for as financial assets at FVTPL on initial recognition. In the opinion of the Directors, the fair value of the cash management products at December 31, 2020 approximated their principal amounts.

(b) Equity investment

In July 2018, the Group made an equity investment in 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, the fair value was about RMB38 million as at December 31, 2020 and the fair value change of these equity investments due to the revaluation of the investment. The performance of Huaxia Cemetery for the year ended December 31, 2020 was consistent with the expectation at time of investment decision.

25. TIME DEPOSITS

	2020 RMB'000	2019 RMB'000
RMB-denominated	—	8,459

As of December 31, 2020, the Group had no fixed-term deposits in banks in the PRC.

As of December 31, 2019, the time deposits carry fixed interests rate at 1.937% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

26. BANK BALANCES AND CASH

Bank balances of the Group denominated in RMB, HK\$ and US Dollar (“US\$”) carry variable-rate interest as follows:

	2020	2019
Interest rate per annum		
– RMB	0.30%–3.70%	0.30%–3.70%
– HK\$	0.01%	0.01%–3.50%
– US\$	0.05%–1.20%	0.05%

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

	2020 RMB'000	2019 RMB'000
HK\$	113,936	80,904
US\$	8,572	34,511
	122,508	115,415

27. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	245,326	199,664
Other payables comprise:		
Advances and deposits from customers	26,958	12,535
Payables for acquisition of property and equipment	742	1,499
Salary, welfare and bonus payables	139,546	130,066
Other accrued expenses	71,516	53,912
Consideration payables for acquisition of subsidiaries	102,188	37,703
Consideration payables for acquisition of non-controlling interests (note)	7,170	142,321
Others	55,314	20,606
	648,760	598,306

Note: During the year of 2019, the Group entered into agreements with the non-controlling shareholders of two of its subsidiaries, to acquire 49% non-controlling interests in Beijing Temshine and 40% non-controlling interests in Chongqing Baitayuan with total consideration of RMB145,384,000, cost of which 3,063,000 was paid in 2019.

During the year of 2020, the remaining consideration of RMB119,250,000 for acquiring Chongqing Baitayuan was fully paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

27. TRADE AND OTHER PAYABLES – *continued*

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

	2020 RMB'000	2019 RMB'000
0 – 90 days	112,627	64,239
91 – 180 days	14,070	26,783
181 – 365 days	35,633	33,450
Over 365 days	82,996	75,192
	<u>245,326</u>	<u>199,664</u>

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

28. BORROWINGS

	2020 RMB'000	2019 RMB'000
Borrowings carry at variable interest rate		
– Secured by the Group's equity interest in a subsidiary	<u>13,860</u>	<u>36,360</u>
	<u>13,860</u>	<u>36,360</u>
The carrying amounts of the above borrowings are repayable*:		
Within one year	13,860	22,500
More than one year, but not exceeding two years	–	13,860
	13,860	36,360
Less: amounts due within one year shown under current liabilities	<u>(13,860)</u>	<u>(22,500)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>13,860</u>

* 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, 2020, the interest rates of the variable-rate borrowings was 4.35% per annum (2019: 4.998% per annum).

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

	2020 RMB'000	2019 RMB'000
Net book value of the Group's equity interest in subsidiaries	<u>137,291</u>	<u>126,416</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

29. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Cemetery maintenance services	404,595	362,279
Sales of pre-need contracts	28,316	20,877
	<u>432,911</u>	<u>383,156</u>
Current	55,876	47,317
Non-Current	<u>377,035</u>	<u>335,839</u>
	<u>432,911</u>	<u>383,156</u>

As at January 1, 2019, contract liabilities amounted to RMB337,243,000. 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.

During the year ended December 31, 2020, the Group generated revenue from cemetery maintenance services in the amount of approximately RMB22,888,000 (2019: RMB23,192,000) in the contract liability balance at the beginning of the year.

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 gives rise to contract liabilities at the start of a contract, until the revenue is recognised when the funeral service is offered. Therefore, this part of advance payment is classified as current liabilities of the Group.

During the year ended December 31, 2020, the Group generated revenue from sales of pre-need contracts in the amount of approximately RMB1,837,000 (2019: RMB836,000) in the contract liability balance at the beginning of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

30. LOANS FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

	2020 RMB'000	2019 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	26,950
Shandong World Trade Center* (山東世界貿易中心)	5,969	16,988
Nanchang Municipal Public Asset Management Co., Ltd.* (南昌市政公用資產管理有限公司)	3,000	6,000
	<u>35,919</u>	<u>49,938</u>
Current	35,919	43,938
Non-Current	—	6,000
	<u>35,919</u>	<u>49,938</u>

* 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 within one year.

The loan from Shandong World Trade Center carries a fixed interest rate at 6.3% (2019: 6.090%) per annum and is repayable on demand.

The loan from Nanchang Municipal Public Asset Management Co., Ltd. carries a fixed interest rate at 6.00% per annum and is due within one year.

31. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	21,322	19,630
Within a period of more than one year but not more than two years	15,147	17,014
Within a period of more than two years but not more than five years	22,191	26,232
Within a period of more than five years	14,313	19,864
Subtotal	<u>72,973</u>	<u>82,740</u>
Less: Amount due for settlement within 12 months shown under current liabilities	<u>(21,206)</u>	<u>(19,630)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>51,767</u>	<u>63,110</u>

The weighted average incremental borrowing rates applied to lease liabilities is 4.35% (2019: 4.35%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

32. SHARE CAPITAL

		Number of shares	Amount US\$
Ordinary shares of US\$0.01 each			
Authorized:			
At January 1, 2019, December 31, 2019 and December 31, 2020		<u>20,000,000,000</u>	<u>200,000,000</u>
	Number of shares	Amount US\$	Shown in the consolidated financial statements as RMB'000
Issued and fully paid:			
At January 1, 2019	2,215,074,422	22,150,744	134,920
Exercise of share options (Note 34)	40,786,000	407,860	2,832
Shares repurchased and cancelled (note)	<u>(50,000)</u>	<u>(500)</u>	<u>(4)</u>
At December 31, 2019	2,255,810,422	22,558,104	137,748
Exercise of share options (Note 34)	<u>54,247,500</u>	<u>542,475</u>	<u>3,762</u>
At December 31, 2020	<u>2,310,057,922</u>	<u>23,100,579</u>	<u>141,510</u>

Note: During the year of 2019 the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of Repurchase	No. of ordinary shares	Price per share		Aggregate consideration paid
		Highest HK\$	Lowest HK\$	HK\$'000
January 2019	50,000	5.28	5.20	262

The ordinary shares repurchased in 2019 were cancelled during the year of 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(a) Share Option Scheme

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

Granted on August 5, 2014

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

Granted on August 5, 2014 – continued

- (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 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

Granted on March 19, 2015

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

- (1) All Share Option B 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.

Granted on March 24, 2016

On March 24, 2016, the Company granted 48,000,000 share options (the “Share Option C”) to the Directors 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

Granted on March 24, 2016 – continued

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

Since Share Option A, B and D have no outstanding balance at January 1, 2020, set out below are details of movements of the outstanding options in relation to Share Option B to E granted under the Share Option Scheme during the year ended December 31, 2020:

	Batch	Date of grant	Exercise price per Share (HK\$)	Number of options				
				Balance outstanding as at January 1, 2020	Exercised during the year ended December 31, 2020	Lapsed during the year ended December 31, 2020	Forfeited during the year ended December 31, 2020	Balance outstanding as at December 31, 2020
Directors								
Bai Xiaojiang	Share Option E	March 20, 2017	4.850	5,000,000	(5,000,000)	–	–	–
Wang Jisheng	Share Option E	March 20, 2017	4.850	5,000,000	(5,000,000)	–	–	–
Ma Xiang	Share Option C	March 24, 2016	5.824	500,000	–	(500,000)	–	–
Lu Hesheng	Share Option C	March 24, 2016	5.824	500,000	–	(500,000)	–	–
	Share Option E	March 20, 2017	4.850	500,000	–	–	–	500,000
Chen Qunlin	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 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 C	March 24, 2016	5.824	300,000	(300,000)	–	–	–
	Share Option E	March 20, 2017	4.850	300,000	–	–	–	300,000
				13,300,000	(10,900,000)	(1,000,000)	–	1,400,000
Other employees	Share Option C	March 24, 2016	5.824	14,456,000	(13,956,000)	(500,000)	–	–
	Share Option E	March 20, 2017	4.850	38,300,000	(29,391,500)	–	–	8,908,500
Total				<u>66,056,000</u>	<u>(54,247,500)</u>	<u>(1,500,000)</u>	<u>–</u>	<u>10,308,500</u>
Exercisable at December 31				<u>41,206,000</u>				<u>10,308,500</u>
Weighted average exercise price (HK\$)				<u>5.74</u>	<u>5.12</u>	<u>5.824</u>	<u>N/A</u>	<u>4.85</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

Since Share Option A has no outstanding balance at January 1, 2019, set out below are details of movements of the outstanding options in relation to Share Option B to E granted under the Share Option Scheme during the year ended December 31, 2019:

	Batch	Date of grant	Exercise price per Share (HK\$)	Number of options				
				Balance outstanding as at January 1, 2019	Exercised during the year ended December 31, 2019	Lapsed during the year ended December 31, 2019	Forfeited during the year ended December 31, 2019	Balance outstanding as at December 31, 2019
Directors								
Bai Xiaojiang	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 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 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 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
Chen Qunlin	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 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 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 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)	–
				25,100,000	(11,500,000)	–	(300,000)	13,300,000
Other employees	Share Option B	March 19, 2015	3.126	9,799,000	(8,299,000)	(1,500,000)	–	–
	Share Option C	March 24, 2016	5.824	35,443,000	(20,987,000)	–	–	14,456,000
	Share Option E	March 20, 2017	4.850	38,300,000	–	–	–	38,300,000
Total				108,642,000	(40,786,000)	(1,500,000)	(300,000)	66,056,000
Exercisable at December 31				33,642,000				41,206,000
Weighted average exercise price (HK\$)				5.01	4.95	3.126	4.85	5.74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

34. SHARE-BASED COMPENSATION – *continued*

(a) Share Option Scheme – *continued*

As at December 31, 2020, 10,308,500 (2019: 66,056,000) share options remains outstanding under the Share Option Scheme, representing 0.45% (2019: 2.93%) 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\$7.28 (2019: HK\$6.54).

The Group recognized total expense of approximately RMB1,607,000 (2019: RMB11,739,000) for the year in relation to Share Option C and E (2019: Share Option C to E) granted by the Company under Share Option Scheme.

(b) Restricted Share Incentive Scheme

The Company has adopted a restricted share incentive scheme on November 29, 2019 to provide incentive or reward to eligible participants including the Directors and employees for their contribution or potential contribution to the Company. The Company entered into a trust deed with the Computershare Hong Kong Trustees Limited as the trustee for the administration of the scheme.

During the year, the trustee of the restricted share incentive scheme purchased 34,800,000 of the Company's shares from the open market. The total amount paid to acquire the shares was approximately RMB190,069,000 and has been deducted from shareholders' equity as at December 31, 2020. The shares purchased by the trustee that are not yet vested for this restricted share incentive scheme were recorded as treasury shares of the Group. As at December 31, 2020, there were 34,800,000 treasury shares held through the trustee of the restricted share incentive scheme, and no such shares have been granted.

35. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of 80% equity interest in Jinsha Fuze Funeral and Burial Co., Ltd. ("Jinsha Fuze")

In June 2020, Shanghai Fu Shou Yuan Industry Group Co., Ltd ("Shanghai Fu Shou Yuan"), a wholly-owned subsidiary of the Group, entered into an agreement with independent third parties to acquire 80% equity interest in Jinsha Fuze by phases. According to the agreement, the Group shall make a total capital injection of RMB49,000,000 in Jinsha Fuze by two batches and pay a cash consideration of RMB83,000,000 to the independent third party. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB66,176,000. Jinsha Fuze is mainly engaged in funeral service and was acquired as part of the Group's expansion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (a) Acquisition of 80% equity interest in Jinsha Fuze Funeral and Burial Co., Ltd. (“Jinsha Fuze”) – *continued*

Consideration transferred

	RMB'000
Cash consideration paid in 2020	68,000
Capital injection paid in 2020	9,800
Consideration payable	<u>15,000</u>
Total	<u><u>92,800</u></u>

As of December 31, 2020, the Group has injected the paid-in capital of RMB49,000,000 and paid consideration of RMB68,000,000. Moreover, the Group is subject to the payables of RMB15,000,000 for consideration.

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Property and equipment	54,814
Cemetery assets	22,317
Right-of-use assets	15,023
Inventories	238
Trade and other receivables	755
Bank balances and cash	1,522
Trade and other payables	(49,681)
Deferred revenue and long term payable	(2,401)
Deferred tax liabilities	<u>(9,307)</u>
Net assets acquired	<u><u>33,280</u></u>

Non-controlling interests

The non-controlling interests (20%) in Jinsha Fuze recognised at the acquisition date was measured by the proportionate share of recognised amounts of net assets of Jinsha Fuze and amounted to RMB6,656,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (a) Acquisition of 80% equity interest in Jinsha Fuze Funeral and Burial Co., Ltd. (“Jinsha Fuze”) – *continued*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	92,800
Plus: non-controlling interests	6,656
Less: recognised amounts of net assets acquired	<u>(33,280)</u>
Total	<u><u>66,176</u></u>

Goodwill arose in the acquisition of Jinsha Fuze because the consideration for the combination effectively included amounts in relation to the future business growth of Jinsha Fuze. These benefits are not recognised 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.

Net cash outflow on acquisition of Jinsha Fuze

	RMB'000
Cash consideration paid	68,000
Less: cash and cash equivalents balances acquired	<u>(1,522)</u>
Total	<u><u>66,478</u></u>

Impact of acquisition on the results of the Group

Included in the profit for the year is a profit of approximately RMB4,496,000 which is attributable to Jinsha Fuze.

Had the acquisition been completed on January 1, 2020, total Group revenue for the period would have been RMB1,902,454,000 and profit for the year would have been RMB758,534,000. 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, 2020, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Jinsha Fuze been acquired at the beginning of the current period, the Directors 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

(b) Acquisition of 100% equity interest in Harbin Mingxiyuan Cemetery Co., Ltd. (“Harbin Mingxiyuan Cemetery”)

In July 2020, Shanghai Fu Shou Yuan entered into an agreement with independent third parties to acquire 100% equity interest in Harbin Mingxiyuan Cemetery for a total consideration of RMB450,000,000. The acquisition has been completed in August 2020 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB352,880,000. Harbin Mingxiyuan Cemetery is mainly engaged in burial service and was acquired as part of the Group’s expansion.

Consideration transferred

	RMB’000
Cash consideration paid in 2020	430,000
Consideration payable	<u>20,000</u>
Total	<u><u>450,000</u></u>

As of December 31, 2020, the Group has paid consideration of RMB430,000,000. Moreover, the Group is subject to the payables of RMB20,000,000 for consideration.

Assets acquired and liabilities recognised at the date of acquisition

	RMB’000
Property and equipment	1,526
Cemetery assets	112,721
Inventories	9,507
Bank balances and cash	24,248
Trade and other payables	(22,854)
Other receivables	3,342
Income tax payable	(4,003)
Deferred tax liabilities	(26,638)
Contract liabilities	<u>(729)</u>
Net assets acquired	<u><u>97,120</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (b) Acquisition of 100% equity interest in Harbin Mingxiyuan Cemetery Co., Ltd. (“Harbin Mingxiyuan Cemetery”) – *continued*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	450,000
Less: recognised amounts of net assets acquired	<u>(97,120)</u>
Total	<u><u>352,880</u></u>

Goodwill arose in the acquisition of Harbin Mingxiyuan Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Harbin Mingxiyuan 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.

Net cash outflow on acquisition of Harbin Mingxiyuan Cemetery

	RMB'000
Cash consideration paid	430,000
Less: cash and cash equivalents balances acquired	<u>(24,248)</u>
Total	<u><u>405,752</u></u>

Impact of acquisition on the results of the Group

Included in the profit for the year is a profit of approximately RMB15,130,000 which is attributable to Harbin Mingxiyuan Cemetery.

Had the acquisition been completed on January 1, 2020, total Group revenue for the period would have been RMB1,916,533,000 and profit for the year would have been RMB768,419,000. 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, 2020, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Harbin Mingxiyuan Cemetery been acquired at the beginning of the current year, the Directors 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 recognized in the pre-acquisition financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

(c) Acquisition of 95% equity interest in Gansu Hailinjingang Industrial Co., Ltd. (“Gansu Hailinjingang”)

In 2019, Shanghai Fu Shou Yuan entered into an agreement with independent third parties to acquire 95% equity interest in Gansu Hailinjingang by phases. A supplemental agreement was entered into in November 2020, pursuant to which, the Group shall make a total capital injection of RMB54,128,000 in Gansu Hailinjingang by three batches and pay a cash consideration of RMB40,872,000 to the former shareholder. This acquisition has been accounted for using the acquisition method. Gansu Hailinjingang is engaged in burial service and was acquired as part of the Group’s expansion.

Consideration transferred

	RMB’000
Capital injection paid in 2020	1,750
Deemed capital injection	956
Consideration payable	<u>40,872</u>
Total	<u><u>43,578</u></u>

As of December 31, 2020, the Group has injected the paid-in capital of RMB35,000,000. Moreover, the Group is subject to the payables of RMB40,872,000 for consideration and committed to injecting remaining capital of RMB19,128,000 in Gansu Hailinjingang.

Assets acquired and liabilities recognised at the date of acquisition

	RMB’000
Property and equipment	4,437
Cemetery assets	117,439
Inventories	1,284
Trade and other receivables	107
Bank balances and cash	89
Bank borrowing	(20,000)
Trade and other payables	(34,204)
Other long-term liabilities	(10,198)
Deferred tax liabilities	<u>(12,868)</u>
Net assets acquired	<u><u>46,086</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (c) Acquisition of 95% equity interest in Gansu Hailinjinggang Industrial Co., Ltd. (“Gansu Hailinjinggang”) – *continued*

Non-controlling interests

The non-controlling interests (5%) in Gansu Hailinjinggang recognised at the acquisition date was measured by the proportionate share of recognised amounts of net assets of Gansu Hailinjinggang Industrial and amounted to RMB2,304,000.

Bargain purchase arose in the acquisition of business

Bargain purchase gain amounting to RMB204,000 on acquisition of Gansu Hailinjinggang is recognised in profit or loss within the line “Bargain purchase gain” in the Note 6. The net asset of Gansu Hailinjinggang at acquisition day is RMB46,087,000, while the total consideration of acquisition is RMB43,578,000, considering the non-controlling interests, bargain purchase gain of RMB204,000 arose in the acquisition.

Net cash flow on acquisition of Gansu Hailinjinggang

	RMB'000
Cash and cash equivalents balances acquired	89
Total	89

Impact of acquisition on the results of the Group

Included in the profit for the year is a loss of approximately RMB215,000 which is attributable to Gansu Hailinjinggang.

Had the acquisition been completed on January 1, 2020, total Group revenue for the period would have been RMB1,897,249,000 and profit for the period would have been RMB757,352,000. 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, 2020, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Gansu Hailinjinggang been acquired at the beginning of the current period, the Directors 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.

Prior to the acquisition of Gansu Hailinjinggang by the Group, Gansu Hailinjinggang supplied guarantees to certain banks for the loans provided to the original shareholder with the maximum guarantee limit up to RMB35 million. As at December 31, 2020, the actual amount of aforesaid guarantee was RMB3.86 million. In view of the acquisition, Shanghai Fu Shou Yuan, certain banks and Gansu Hailinjinggang entered into agreements pursuant to which the guarantees will be fully released so long as part of the consideration is to be paid into designated accounts of these banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (c) Acquisition of 95% equity interest in Gansu Hailinjingang Industrial Co., Ltd. (“Gansu Hailinjingang”) – *continued*

Impact of acquisition on the results of the Group – continued

In determining whether financial liabilities should be recognised in respect of the above financial guarantee contracts, the Directors exercise judgment in evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the Directors, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the consolidated statement of financial position as at acquisition date and December 31, 2020. Should the actual outcome be different from expected, provision for losses will be recognised in the consolidated financial statements.

- (d) Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”)

In December 2018, Shanghai Fu Shou Yuan, entered into an agreement with independent third parties to acquire 80% equity interest in Hubei Tianxian Cemetery at a total consideration of RMB40,000,000. The acquisition has been completed in January 2019 and has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB13,560,000. Hubei Tianxian Cemetery is engaged in burial service and was acquired as part of the Group’s expansion.

Consideration transferred

	RMB’000
Cash paid in 2019	33,000
Consideration payable	<u>7,000</u>
Total	<u><u>40,000</u></u>

As of December 31, 2020, the Group has paid consideration of RMB33,000,000. Moreover, the Group is subject to the payables of RMB7,000,000 for consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (d) Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”) – *continued*

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Property and equipment	2,728
Cemetery assets	31,035
Inventories	2,246
Bank balances and cash	153
Trade and other payables	(152)
Contract liabilities	(1,635)
Deferred tax liabilities	(1,325)
	<hr/>
Net assets acquired	<u>33,050</u>

Non-controlling interests

The non-controlling interests (20%) in Hubei Tianxian Cemetery recognised at the acquisition date was measured by the proportionate share of recognised amounts of net assets of Hubei Tianxian Cemetery and amounted to RMB6,610,000.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	40,000
Plus: non-controlling interests	6,610
Less: recognised amounts of net assets acquired	<u>(33,050)</u>
	<hr/>
Total	<u>13,560</u>

Goodwill arose in the acquisition of Hubei Tianxian Cemetery because the consideration for the combination effectively included amounts in relation to the future business growth of Hubei Tianxian 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. ACQUISITIONS OF SUBSIDIARIES – *continued*

- (d) Acquisition of 80% equity interest in Hubei Tiansheng Cemetery Co., Ltd. (“Hubei Tianxian Cemetery”) – *continued*

Net cash outflow on acquisition of Hubei Tianxian Cemetery

	RMB'000
Cash consideration paid	33,000
Less: cash and cash equivalents balances acquired	<u>(153)</u>
Total	<u><u>32,847</u></u>

Impact of acquisition on the results of the Group

Included in the profit for the year of 2019 is a loss of approximately RMB3,040,000 which is attributable to Hubei Tianxian Cemetery.

Had the acquisition been completed on January 1, 2019, total group revenue for the year of 2019 would have been RMB1,850,574,000 and profit for the year of 2019 would have been RMB735,272,000. 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, 2019, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and profit of the Group had Hubei Tianxian Cemetery been acquired at the beginning of the year of 2019, the Directors 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 recognized in the pre-acquisition financial statements.

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, 2020.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

	2020 RMB'000	2019 RMB'000
Financial assets		
At FVTPL	1,021,037	455,690
At amortised cost	<u>1,382,995</u>	<u>2,164,102</u>
Financial liabilities		
At amortized cost	<u>518,113</u>	<u>525,861</u>

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, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The primary economic environment in which the 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, 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Assets		
US\$	8,572	34,511
HK\$	<u>114,046</u>	<u>81,117</u>
Liabilities		
HK\$	<u>23,260</u>	<u>4,058</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

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

Market risk – continued

Currency risk – continued

Sensitivity analysis

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

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

	2020 RMB'000	2019 RMB'000
If RMB strengthens against US\$	<u>(321)</u>	<u>(1,294)</u>
If RMB strengthens against HK\$	<u>(3,404)</u>	<u>(2,890)</u>

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, time deposits, lease liabilities and loans 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 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:

	2020 RMB'000	2019 RMB'000
Financial assets at amortised cost	<u>14,112</u>	<u>27,517</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

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

Market risk – continued

Interest rate risk – continued

Interest expense on financial liabilities not measured at FVTPL and lease liabilities:

	2020 RMB'000	2019 RMB'000
Financial liabilities at amortised cost	6,833	7,956
Lease liabilities	2,692	3,172
	9,525	11,128

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, 2020 would have been increased/decreased by approximately RMB1,709,000 (2019: RMB1,867,000).

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, 2020 would have been decreased/increased by approximately RMB364,000 (2019: RMB447,000).

Other price risk

The Group is exposed to other price risk through its investments in unlisted financial products as financial assets at FVTPL. The management considers alternative tools to mitigate other price risk and manages this exposure by maintaining a portfolio of investments with different risks.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, bank balances and other receivables. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets and other items under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

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

Credit risk and impairment assessment – continued

Trade receivables arising from contracts with customers

The Group ordinarily demands its customers for full cash settlement prior to or upon the delivery of burial service. 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.

The Group has concentration of credit risk on trade receivables. At December 31, 2020, the Group's largest and five largest customers accounted for approximately 22% (2019: 18%) and 57% (2019: 64%) of the total trade receivables, respectively. In order to minimise the credit risk, 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 management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken when overdue debts occur. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for items with material amount, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. No impairment is recognised during the year (2019: nil).

Other receivables

For other receivables, the Directors make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Directors believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended December 31, 2020 and 2019, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

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

Credit risk and impairment assessment – continued

Other receivables – continued

The Group's internal credit risk grading assessment comprises the 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 in full	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

Other receivables – continued

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

	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2020 RMB'000	Gross carrying amount 2019 RMB'000
Financial assets at amortised cost					
Bank balances and cash	26	Low risk	12m ECL	1,234,022	2,007,142
Time deposits	25	Low risk	12m ECL	—	8,459
Restricted deposits	19	Low risk	12m ECL	61,403	56,268
Other receivables	23	(note)	12m ECL	24,305	35,753
Trade receivables	23	Low risk	Lifetime ECL	63,265	56,480

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.

2020	Past due RMB'000	Not past due RMB'000	Total RMB'000
Other receivables	—	24,305	24,305

2019	Past due RMB'000	Not past due RMB'000	Total RMB'000
Other receivables	—	35,753	35,753

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

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

Liquidity risk – continued

Liquidity tables

The following tables detail the Group's remaining contractual maturity for their 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 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, 2020 and 2019.

	Weighted average rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2020						
Trade and other payables	–	468,334	–	–	468,334	468,334
Loans from non-controlling shareholders of subsidiaries						
– fixed rate	4.81	36,064	–	–	36,064	35,919
Borrowings						
– variable rate	5.00	14,553	–	–	14,553	13,860
Lease liabilities	4.35	21,376	49,701	9,753	80,830	72,973
		<u>540,327</u>	<u>49,701</u>	<u>9,753</u>	<u>599,781</u>	<u>591,086</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average rate %	Repayable on demand or less than 1 year RMB'000	1 year to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2019						
Trade and other payables	–	439,562	–	–	439,562	439,562
Loans from non-controlling shareholders of subsidiaries						
– fixed rate	5.14	27,078	24,383	–	51,461	49,938
Borrowings						
– variable rate	4.73	24,317	19,160	–	43,477	36,360
Lease liabilities	4.35	19,656	55,415	18,017	93,088	82,740
		<u>510,613</u>	<u>98,958</u>	<u>18,017</u>	<u>627,588</u>	<u>608,600</u>

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
	31/12/2020	31/12/2019		
Financial assets at FVTPL	Cash management products in PRC with principal of RMB982,927,000	Cash management products in PRC with principal of RMB417,580,000	Level 3	Discounted cash flows Key unobservable input is: (1) Expected return; (2) Risk-adjusted discount rate (note)
Unquoted equity investments	10% equity investment in Changchun Huaxia Cemetery Co., Ltd. of RMB38,110,000	10% equity investment in Changchun Huaxia Cemetery Co., Ltd. of RMB38,110,000	Level 3	Income approach Key unobservable inputs are: (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

37. FINANCIAL INSTRUMENTS – *continued*

c. Fair value measurements of financial instruments – *continued*

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

Note: The Directors 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

	Financial assets at FVTPL RMB'000
At January 1, 2019	607,181
Total gains:	
– in profit or loss	14,274
Purchase	<u>433,980</u>
Disposals/settlements	<u>(599,745)</u>
At December 31, 2019	455,690
Total gains:	
– in profit or loss	18,638
Purchase	<u>1,494,627</u>
Disposals/settlements	<u>(947,918)</u>
At December 31, 2020	<u><u>1,021,037</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

38. CAPITAL AND OTHER COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of the acquisition of property and equipment and cemetery assets contracted for but not provided in the consolidated financial statements	<u>86,095</u>	<u>106,875</u>
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the consolidated financial statements	<u>—</u>	<u>95,000</u>

In addition, the Group is committed to making capital contribution upon the requests of the general partners in Jiaying Fuji. The Group has no outstanding contribution called by not yet paid as of December 31, 2020.

39. RETIREMENT BENEFITS SCHEMES

The Group participates in 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. No forfeited contributions are available under the MPF Scheme.

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.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB6,711,000 for the year ended December 31, 2020 (2019: RMB25,964,000), representing contributions paid and/or payable to the scheme by the Group for the year ended December 31, 2019. As at December 31, 2020, contributions of RMB254,938 due in respect of the year ended December 31, 2020 had not been paid over to the plans (December 31, 2019: RMB1,150,000). The amounts were paid subsequent to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities (including dividend payable, borrowings, lease liabilities, other long-term liabilities and loans from non-controlling shareholders of subsidiaries) 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	Borrowings	Lease liabilities	Other long-term liabilities	Loans from non-controlling shareholders of subsidiaries	Repayments of loan from the third parties	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019 (restated)	—	103,860	88,480	13,774	58,919	—	265,033
Financing cash flows	(274,016)	(72,273)	(19,709)	(250)	(11,976)	—	(378,224)
New leases entered	—	—	10,797	—	—	—	10,797
New contracts entered	—	—	—	7,633	—	—	7,633
Interest expense	—	4,773	3,172	188	2,995	—	11,128
Dividends paid to non-controlling interests	114,797	—	—	—	—	—	114,797
Dividends recognized as distributions	159,219	—	—	—	—	—	159,219
At December 31, 2019	—	36,360	82,740	21,345	49,938	—	190,383
At January 1, 2020	—	36,360	82,740	21,345	49,938	—	190,383
Financing cash flows	(294,890)	(45,079)	(23,739)	(250)	(16,797)	(54,368)	(435,123)
New leases entered	—	—	11,280	—	—	—	11,280
New contracts entered	—	—	—	10,421	—	—	10,421
Acquired on acquisition of subsidiaries	—	20,000	—	—	—	54,386	74,386
Interest expense	—	2,579	2,692	1,476	2,778	—	9,525
Dividends paid to non-controlling interests	139,406	—	—	—	—	—	139,406
Dividends recognized as distributions	155,484	—	—	—	—	—	155,484
At December 31, 2020	—	13,860	72,973	32,992	35,919	—	155,744

41. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

42. 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 ^a	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		Principal activities
				At December 31, 2020 %	2019 %	
Directly held:						
FSY Hong Kong ^a 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 ^a 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 ^a 上海福壽園實業集團有限公司	PRC	February 21, 1994	RMB100,000,000	100	100	Provision of burial services
Shanghai Fu Shou Yuan Corporate Management Consultancy Company Limited ^a 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 ^a 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 ^a 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 ^a “Hefei Dashushan” 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 ^a “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 ^a “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 ^a 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 ^a 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 ^a 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 ^a 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 ^a 福渺企業管理諮詢(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) ^b 重慶福壽園股權投資企業(有限合伙)	PRC	November 10, 2010	RMB52,138,207	100	100	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

42. DETAILS OF SUBSIDIARIES – continued

Name of subsidiary ^a	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		Principal activities
				At December 31, 2020 %	2019 %	
Nanchang Hongfu Humanities Memorial Co., Ltd ^a (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 ^a 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 ^a 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 ^a 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 ^a “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 ^a 寧波永逸殯葬禮儀服務有限公司	PRC	January 9, 2013	RMB1,000,000	60	60	Provision of funeral services
Shanghai Nanyuan Industrial Development Co., Ltd. ^a (“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 ^a 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 ^a 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 ^a 上海福壽園景觀規劃設計有限公司	PRC	January 9, 2013	RMB1,000,000	95	95	Provision of designing service
Wuhan Changle Fu Shou Yuan Funeral Services Company Limited ^a 武漢長樂福壽殯葬禮儀服務有限公司	PRC	October 30, 2013	RMB1,000,000	51	51	Inactive
Chongqing Baitayuan Funeral and Burial Development Co., Ltd ^a 重慶白塔園殯葬開發有限公司	PRC	September 8, 1997	RMB13,405,700	100	60	Provision of burial service and funeral service
Chongqing Fuding Equity Investment Fund Partnership (Limited Partnership) ^a 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
Beijing Fushouyuan Investment Co., Ltd. ^a 北京福壽園投資有限公司	PRC	March 26, 2014	RMB10,000,000	60	60	Investment holding
Nanchang Fu Shou Yuan Funeral Co., Ltd ^a (“Meilin Century Cemetery”) 南昌福壽園殯葬禮儀有限責任公司	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 ^a (“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	90	Provision of burial service
Wuyuan Wanshoushan Lingyuan Co., Ltd. ^a (“Wuyuan Wanshoushan Cemetery”) 婺源萬壽山陵園有限公司	PRC	May 7, 2013	RMB3,500,000	100	100	Provision of burial service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

42. DETAILS OF SUBSIDIARIES — continued

Name of subsidiary ^a	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,		Principal activities
				2020 %	2019 %	
Anyang Wulong Civil Service Co., Ltd. ^a 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. ^a (“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. ^a 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. ^a 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
Chongqing Fu Shou Yuan Xiyuan Industrial Co., Ltd. ^a (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. ^a 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 Fu Shou Yuan Funeral and Burial Service Co., Ltd. ^a 棗莊市福壽園殯葬服務有限公司	PRC	October 25, 2004	RMB1,500,000	100	100	Provision of burial service
Xuancheng Mashan Funeral Parlour Co., Ltd. ^a 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 ^a 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 ^a 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. ^a 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. ^a 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. ^a 淮北福壽園紀念陵園有限責任公司	PRC	September 25, 2014	RMB30,000,000	100	100	Provision of burial service
Temshine ^a 北京天泉佳境陵園建築設計有限公司	PRC	June 23, 2005	RMB6,150,000	100	100	Provision of designing service
Guangxi Huazuyuan Investment Co., Ltd. ^a 廣西華祖園投資有限公司	PRC	May 8, 2013	RMB25,000,000	60	60	Provision of burial service
Changzhou Fushouyuan Etiquette Co., Ltd. ^{a*} 常州福壽園禮儀有限公司	PRC	January 7, 2013	RMB500,000	76	76	Provision of funeral service
Qinzhou Huazuyuan Investment Co., Ltd. ^a 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. ^a 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
Ningde Huaixiang Funeral Services Co., Ltd. ^a 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. ^a 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
Luijiang Fu Shou Yuan Funeral Services Co., Ltd. ^a 廬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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

42. DETAILS OF SUBSIDIARIES – continued

Name of subsidiary ^a	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		Principal activities
				At December 31,		
				2020 %	2019 %	
Chaoyang Longshan Fuyuan Cemetery Co., Ltd ^a 朝陽縣龍山福園公墓有限公司	PRC	January 2, 2018	RMB2,000,000	100	100	Provision of burial service
Heling'er County Anyou Ecological Memorial Cemetery Co., Ltd ^a 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	100	Provision of burial service
Guizhou Tianyuanshan Funeral Service Co., Ltd ^a 貴州天圓山殯儀服務有限公司	PRC	March 27, 2017	RMB40,000,000	80	80	Provision of burial service and funeral service
Xuancheng Mashan Scenic Service Co., Ltd ^a 宣城馬山風景陵園有限公司	PRC	January 5, 2018	RMB40,000,000	100	100	Provision of burial service
Hangzhou Xiaoshan Funeral Service Center Co., Ltd ^a 杭州蕭山殯儀服務中心有限公司	PRC	April 3, 2018	RMB8,000,000	55	55	Provision of funeral service
Dalian Fushouyuan Xijianshan Industrial Co., Ltd. ^a 大連福壽園西尖山實業有限公司	PRC	December 10, 2018	RMB10,000,000	100	100	Provision of burial service
Fushoujia (Shanghai) Industrial Development Co., Ltd ^a 福壽家(上海)實業發展有限公司	PRC	August 7, 2017	RMB30,000,000	100	100	Provision of funeral service
Ningbo Fenghua Fushouyuan Funeral Service Co., Ltd ^a 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	60	Provision of funeral service
Changzhou Jintan Fushouyuan Funeral Service Co., Ltd ^a 常州金壇福壽園禮儀服務有限公司	PRC	October 25, 2018	RMB1,000,000	80	80	Provision of funeral service
Yanshan County Fushouyuan Funeral Service Co., Ltd ^a 鉛山縣福壽園禮儀服務有限公司	PRC	August 23, 2018	RMB25,000,000	100	100	Provision of funeral service
Ganzhou Ronglong Humanities Memorial Park Management Co., Ltd. ^a 贛州蓉龍人文紀念園管理有限公司	PRC	November 29, 2018	RMB4,000,000	80	80	Provision of burial service
Hubei Tiansheng Cemetery Co., Ltd ^a 湖北天聖公墓有限公司	PRC	December 24, 2012	RMB20,000,000	80	80	Provision of burial service
Shandong Anzun Life Culture Service Co., Ltd. ^a ("Shandong Annzun") (Note (b)) 山東安尊生命文化服務有限公司	PRC	January 28, 2019	RMB60,000,000	49	49	Provision of burial service
Fuyang Fushouyuan Funeral Service Co., Ltd. ^a 阜陽福壽園殯葬服務有限公司	PRC	July 23, 2018	RMB5,500,000	100	100	Provision of funeral service
Linquan Heheyuan Funeral Home Co., Ltd. ^a 臨泉駕鶴園殯儀館有限公司	PRC	June 24, 2019	RMB50,000,000	100	100	Provision of funeral service
Shucheng Fushouyuan Funeral Etiquette Service Co., Ltd. ^a 舒城福壽園殯葬禮儀服務有限公司	PRC	November 11, 2019	RMB1,000,000	100	100	Provision of funeral service
Zaozhuang Fushouyuan Etiquette Service Co., Ltd. ^a 棗莊市福壽園禮儀服務有限公司	PRC	December 12, 2019	RMB10,000,000	100	100	Provision of funeral service
Harbin Mingxiyuan Cemetery Co., Ltd. ^a 哈爾濱明西園公墓有限責任公司	PRC	September 29, 2000	RMB10,000,000	100	N/A	Provision of burial service
Jinsha Fuze Binzang Co., Ltd. ^a 金沙縣福澤殯葬有限責任公司	PRC	January 6, 2011	RMB74,000,000	80	N/A	Provision of funeral service
Shanghai Fushouyun Life Information Technology Co., Ltd. ^a 上海福壽雲生命信息科技有限公司	PRC	November 19, 2012	RMB10,000,000	100	N/A	Provision of funeral service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

42. 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		Principal activities
				At December 31,		
				2020 %	2019 %	
Gansu Hailinjinggang Industrial Co., Ltd. ^o 甘肅海林嶺港實業有限公司	PRC	July 2, 2009	RMB70,000,000	95	N/A	Provision of burial service
Changfeng Etiquette Service Co., Ltd. ^{**} 長豐福壽園殯葬禮儀服務有限公司	PRC	January 1, 2020	RMB300,000	100	N/A	Provision of funeral service
Ruichang Etiquette Service Co., Ltd. ^{**} 瑞昌市福壽園殯葬服務有限公司	PRC	September 30, 2020	RMB429,000	100	N/A	Provision of funeral service

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

^{*} The entity was set up during the year ended December 31, 2020.

[^] 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.

^o The entity was acquired during the year ended December 31, 2020.

Notes:

(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.

(b) The Group has been assigned irrevocable rights unconditionally and without conditions to direct the relevant activities of Shandong Anzun unilaterally. As such, Shandong Anzun is accounted for as a subsidiary of the Group.

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

43. 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	
		2020 %	2019 %	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
		Hefei Dashushan	PRC	40	40	27,511	29,558
Nanchang Hongfu	PRC	49.11	49.11	10,386	11,410	97,883	87,497
Haigang Fu Shou Yuan	PRC	60	60	71,546	92,285	126,877	147,131
Guanlingshan Cultural Cemetery	PRC	10	10	1,256	3,068	35,755	39,782
Chongqing Xiyuan	PRC	49	49	521	(506)	39,452	38,931
Shandong Fu Shou Yuan Development	PRC	50	50	11,560	7,881	55,356	43,796
Individually immaterial subsidiaries with non-controlling interests				14,461	13,044	183,074	147,910
Total				137,241	156,740	574,204	542,143

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Hefei Dashushan

	2020 RMB'000	2019 RMB'000
Current assets	<u>148,539</u>	<u>147,891</u>
Non-current assets	<u>10,148</u>	<u>11,822</u>
Current liabilities	<u>35,117</u>	<u>35,485</u>
Non-current liabilities	<u>34,053</u>	<u>31,488</u>
Equity attributable to owners of the Company	<u>53,710</u>	<u>55,644</u>
Non-controlling interests	<u>35,807</u>	<u>37,096</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>121,175</u>	<u>127,014</u>
Expenses	<u>(52,398)</u>	<u>(53,119)</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>41,266</u>	<u>44,337</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>27,511</u>	<u>29,558</u>
Profit and total comprehensive income for the year	<u>68,777</u>	<u>73,895</u>
Dividends paid to non-controlling interests	<u>28,800</u>	<u>27,200</u>
Net cash inflow from operating activities	<u>68,706</u>	<u>69,070</u>
Net cash inflow (outflow) from investing activities	<u>661</u>	<u>(3,083)</u>
Net cash outflow from financing activities	<u>(72,000)</u>	<u>(68,000)</u>
Net cash outflow	<u>(2,633)</u>	<u>(2,013)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Nanchang Hongfu

	2020 RMB'000	2019 RMB'000
Current assets	<u>94,460</u>	<u>72,950</u>
Non-current assets	<u>195,887</u>	<u>200,372</u>
Current liabilities	<u>74,154</u>	<u>80,358</u>
Non-current liabilities	<u>16,879</u>	<u>14,799</u>
Equity attributable to owners of the Company	<u>101,431</u>	<u>90,668</u>
Non-controlling interests	<u>97,883</u>	<u>87,497</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>68,364</u>	<u>57,871</u>
Expenses	<u>(47,215)</u>	<u>(34,638)</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>10,763</u>	<u>11,823</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>10,386</u>	<u>11,410</u>
Profit and total comprehensive income for the year	<u>21,149</u>	<u>23,233</u>
Net cash outflow from operating activities	<u>(4,030)</u>	<u>(1,983)</u>
Net cash (outflow) inflow from investing activities	<u>(7,336)</u>	<u>12,582</u>
Net cash inflow (outflow) from financing activities	<u>25,006</u>	<u>(25,006)</u>
Net cash inflow (outflow)	<u>13,640</u>	<u>(14,407)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Haigang Fu Shou Yuan

	2020 RMB'000	2019 RMB'000
Current assets	<u>199,865</u>	<u>239,222</u>
Non-current assets	<u>69,797</u>	<u>68,878</u>
Current liabilities	<u>35,064</u>	<u>42,850</u>
Non-current liabilities	<u>23,137</u>	<u>20,034</u>
Equity attributable to owners of the Company	<u>84,584</u>	<u>98,085</u>
Non-controlling interests	<u>126,877</u>	<u>147,131</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>202,330</u>	<u>254,367</u>
Expenses	<u>(83,085)</u>	<u>(100,560)</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>47,698</u>	<u>61,522</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>71,547</u>	<u>92,285</u>
Profit and total comprehensive income for the year	<u>119,245</u>	<u>153,807</u>
Dividends paid to non-controlling interests	<u>91,800</u>	<u>75,600</u>
Net cash inflow from operating activities	<u>124,455</u>	<u>138,139</u>
Net cash inflow from investing activities	<u>36</u>	<u>388</u>
Net cash outflow from financing activities	<u>(153,000)</u>	<u>(126,000)</u>
Net cash (outflow) inflow	<u>(28,509)</u>	<u>12,527</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Guanlingshan Cultural Cemetery

	2020 RMB'000	2019 RMB'000
Current assets	<u>77,832</u>	<u>69,002</u>
Non-current assets	<u>384,652</u>	<u>401,181</u>
Current liabilities	<u>79,886</u>	<u>47,160</u>
Non-current liabilities	<u>25,051</u>	<u>25,202</u>
Equity attributable to owners of the Company	<u>321,792</u>	<u>358,039</u>
Non-controlling interests	<u>35,755</u>	<u>39,782</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>92,816</u>	<u>129,237</u>
Expenses	<u>(80,255)</u>	<u>(98,545)</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>11,305</u>	<u>27,624</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>1,256</u>	<u>3,068</u>
Profit and total comprehensive income for the year	<u>12,561</u>	<u>30,692</u>
Dividends paid to non-controlling interests	<u>5,283</u>	<u>—</u>
Net cash inflow from operating activities	<u>63,858</u>	<u>1,127</u>
Net cash inflow from investing activities	<u>774</u>	<u>1,833</u>
Net cash outflow from financing activities	<u>(52,837)</u>	<u>(5,000)</u>
Net cash inflow (outflow)	<u>11,795</u>	<u>(2,040)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Chongqing Xiyuan

	2020 RMB'000	2019 RMB'000
Current assets	<u>16,744</u>	<u>17,038</u>
Non-current assets	<u>130,407</u>	<u>125,053</u>
Current liabilities	<u>63,907</u>	<u>60,701</u>
Non-current liabilities	<u>2,730</u>	<u>1,939</u>
Equity attributable to owners of the Company	<u>41,062</u>	<u>40,520</u>
Non-controlling interests	<u>39,452</u>	<u>38,931</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>23,013</u>	<u>18,540</u>
Expenses	<u>(21,950)</u>	<u>(19,573)</u>
Profit (loss) and total comprehensive income (loss) attributable to the owners of the Company	<u>542</u>	<u>(527)</u>
Profit (loss) and total comprehensive income (loss) attributable to non-controlling interests	<u>521</u>	<u>(506)</u>
Profit (loss) and total comprehensive income (loss) for the year	<u>1,063</u>	<u>(1,033)</u>
Net cash inflow from operating activities	<u>5,843</u>	<u>2,258</u>
Net cash outflow from investing activities	<u>(7,929)</u>	<u>(11,360)</u>
Net cash outflow from financing activities	<u>—</u>	<u>(2,393)</u>
Net cash outflow	<u>(2,086)</u>	<u>(11,495)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Shandong Fu Shou Yuan Development

	2020 RMB'000	2019 RMB'000
Current assets	<u>57,145</u>	<u>49,178</u>
Non-current assets	<u>116,851</u>	<u>118,707</u>
Current liabilities	<u>43,860</u>	<u>45,512</u>
Non-current liabilities	<u>19,424</u>	<u>34,781</u>
Equity attributable to owners of the Company	<u>55,356</u>	<u>43,796</u>
Non-controlling interests	<u>55,356</u>	<u>43,796</u>
	2020 RMB'000	2019 RMB'000
Revenue	<u>70,155</u>	<u>65,815</u>
Expenses	<u>(47,035)</u>	<u>(50,053)</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>11,560</u>	<u>7,881</u>
Profit and total comprehensive income attributable to non-controlling interests	<u>11,560</u>	<u>7,881</u>
Profit and total comprehensive income for the year	<u>23,120</u>	<u>15,762</u>
Net cash inflow (outflow) from operating activities	<u>2,740</u>	<u>(10,093)</u>
Net cash inflow from investing activities	<u>64</u>	<u>159</u>
Net cash inflow from financing activities	<u>—</u>	<u>6,000</u>
Net cash inflow (outflow)	<u>2,804</u>	<u>(3,934)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The statement of financial position of the Company as at December 31, 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Non-Current Assets		
Interest in subsidiaries	1	1
	<u>1</u>	<u>1</u>
Current Assets		
Trade and other receivables	40	40
Amounts due from subsidiaries	1,677,702	1,667,031
Bank balances and cash	110,123	72,171
	<u>1,787,865</u>	<u>1,739,242</u>
Current Liabilities		
Trade and other payables	23,489	4,288
Amounts due to subsidiaries	542,677	408,925
	<u>566,166</u>	<u>413,213</u>
Net Current Assets	<u>1,221,699</u>	<u>1,326,029</u>
Total Assets less Current Liabilities	<u>1,221,700</u>	<u>1,326,030</u>
Capital and Reserves		
Share capital	141,510	137,748
Reserves (note)	1,080,190	1,188,282
Total Equity	<u>1,221,700</u>	<u>1,326,030</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Note:

	Treasury shares RMB'000	Share premium* RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2019	—	1,232,702	79,667	81,056	(220,331)	1,173,094
Exercise of stock options	—	210,213	—	(33,538)	—	176,675
Share-based compensation	—	—	—	11,739	—	11,739
Loss and total comprehensive expense for the year	—	—	—	—	(13,777)	(13,777)
Dividends recognized as distributions	—	(159,219)	—	—	—	(159,219)
Repurchase and cancellation of shares	—	(230)	—	—	—	(230)
At December 31, 2019	—	1,283,466	79,667	59,257	(234,108)	1,188,282
Exercise of stock options	—	294,327	—	(51,754)	—	242,573
Share-based compensation	—	—	—	1,607	—	1,607
Loss and total comprehensive expense for the year	—	—	—	—	(9,078)	(9,078)
Dividends recognized as distributions	—	(155,484)	—	—	—	(155,484)
Shares purchased by trustee under the restricted share incentive scheme	(190,069)	2,358	—	—	—	(187,711)
At December 31, 2020	(190,069)	1,424,667	79,667	9,110	(243,186)	1,080,189

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

45. 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 98.6% 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 7 were either settled, subsequently withdrawn or concluded by the Province People’s Courts and other courts resulting a RMB2.3 million net settlement paid by the Group.

The total claims on the remaining 5 Proceedings (the “Remaining Proceedings”), where appropriate, including the interest accrued up to the date of these consolidated financial statements, amounted to RMB58.46 million and the status is disclosed as follows:

- 3 claims for RMB57 million awarded in favor of the plaintiffs in the second-instance of the People’s Court of Jiangxi Province. In one of the three cases, buildings of Wuyuan Wanshoushan Cemetery were restricted by court with carrying amounts of RMB7.9 million;
- 1 claim for RMB0.68 million awarded in favor of the plaintiffs in the second-instance of the People’s Court of Shang Rao City, Jiangxi Province.
- 1 claim for RMB0.78 million awarded in favor of the plaintiffs in the first-instance of the People’s Court of Wu Yuan County, Jiangxi Province. Wuyuan Wanshoushan Cemetery has proceeded with an appeal.

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 are of the view that if the suspected crimes are confirmed, Wuyuan Wanshoushan Cemetery will be exempted from the potential guarantee or repayment liability.

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 are of the view that the Remaining Proceedings will in the end result in a material adverse impact on the financial position and business operation of the Group is not probable and conclude that no provision shall necessarily be made. However, given the nature of the Remaining Proceedings, it would be impossible to predict the outcome of the appeal proceedings with a sufficient degree of certainty.

FINANCIAL SUMMARY

	For the year ended 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
Revenue	1,267,655	1,477,208	1,651,299	1,850,574	1,892,537
Operating expenditures					
Staff costs	(301,092)	(354,356)	(401,192)	(416,125)	(385,805)
Construction costs	(61,169)	(54,091)	(70,137)	(72,897)	(76,495)
Consumed materials and goods	(107,603)	(109,148)	(117,113)	(141,477)	(149,109)
Outsourced service costs	(48,297)	(54,738)	(55,002)	(54,418)	(52,906)
Marketing and sales channel costs	(62,754)	(61,758)	(43,876)	(38,671)	(36,072)
Depreciation and amortisation	(66,583)	(74,697)	(92,730)	(123,170)	(136,713)
Other general operating expenditures	(123,410)	(119,178)	(137,717)	(139,039)	(133,406)
Inventory changes	9,214	(8,076)	(10,638)	4,564	5,872
Profit from operations	505,961	641,166	722,894	869,341	927,903
Other income, gains and losses	58,823	58,805	60,172	88,632	61,707
Share of profit (loss) of a joint venture	485	398	—	(176)	4
Finance costs	(8,256)	(15,585)	(8,293)	(11,128)	(9,525)
Profit before taxation	557,013	684,784	774,773	946,669	980,089
Income tax expense	(108,508)	(134,611)	(159,140)	(211,350)	(222,784)
Profit and total comprehensive income for the year	<u>448,505</u>	<u>550,173</u>	<u>615,633</u>	<u>735,319</u>	<u>757,305</u>
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	338,974	417,350	488,364	578,579	620,064
Non-controlling interests	109,531	132,823	127,269	156,740	137,241
	<u>448,505</u>	<u>550,173</u>	<u>615,633</u>	<u>735,319</u>	<u>757,305</u>
	RMB cents	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per share					
— Basic	16.2	19.6	22.2	25.9	27.4
— Diluted	15.7	19.3	21.9	25.7	27.3

FINANCIAL SUMMARY

	As at 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
Assets and liabilities					
Total Assets	3,936,218	4,662,035	5,237,704	5,985,620	6,678,175
Total liabilities	<u>(907,178)</u>	<u>(1,057,531)</u>	<u>(1,186,821)</u>	<u>(1,400,407)</u>	<u>(1,536,089)</u>
	<u>3,029,040</u>	<u>3,604,504</u>	<u>4,050,883</u>	<u>4,585,213</u>	<u>5,142,086</u>
Equity attributable to owners of the Company	2,536,180	3,018,163	3,512,431	4,043,070	4,567,881
Non-controlling interests	<u>492,860</u>	<u>586,341</u>	<u>538,452</u>	<u>542,143</u>	<u>574,205</u>
	<u>3,029,040</u>	<u>3,604,504</u>	<u>4,050,883</u>	<u>4,585,213</u>	<u>5,142,086</u>

DEFINITIONS AND GLOSSARY

“AGM”	the annual general meeting of the Company to be held on May 25, 2021
“Annual Report”	this annual report dated March 26, 2021 of the Company
“Anyang Tianshouyuan Cemetery”	a cemetery in Anyang of Henan Province and operated by Anyang Fu Shou Yuan Civil Service Co., Ltd.* (安陽福壽園民生服務有限公司), formerly known as 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
“Changchun Huaxia Cemetery”	a cemetery in Changchun City of Jilin Province and operated by Changchun Huaxia Cemetery Co., Ltd.* (長春華夏陵園有限公司), a limited company established under the laws of the PRC
“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

DEFINITIONS AND GLOSSARY

“Chongqing Anle Funeral Services”	Chongqing Anle Funeral Services Co., Ltd.* (重慶安樂殯儀服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Chongqing Anle Services”	Chongqing Anle Services Co., Ltd.* (重慶安樂服務有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Chongqing Baitayuan”	a cemetery in Yongchuan of Chongqing Municipality and operated by Chongqing Baitayuan Funeral and Burial Development Co., Ltd.* (重慶白塔園殯葬開發有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Chongqing FSY Group”	Chongqing Fu Shou Yuan Group Co., Ltd.* (重慶福壽園集團有限公司), formerly known as Chongqing Fu Shou Yuan Industrial Co., Ltd.* (重慶福壽園實業有限公司), a company established in the PRC on January 18, 2011. It is an indirect wholly-owned subsidiary of the Company
“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
“EIT Law”	the Law of the PRC on Enterprise Income Tax
“FSG Holding”	FSG Holding Corporation, a company incorporated in BVI on December 6, 2011 and one of the Company’s Shareholders
“FSY Hong Kong”	Fu Shou Yuan Group (Hong Kong) Limited, a limited liability company incorporated in HK on October 10, 2011. It is a direct held subsidiary of the Company
“Global Offering”	the offering by the Company of its Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States in December 2013
“Grand Fire”	Grand Fire Limited, a limited liability company incorporated in BVI on July 2, 2013, and wholly-owned by Mr. Lu Hesheng (陸鶴生), the non-executive Director

DEFINITIONS AND GLOSSARY

“Group”, “our Group”, “us”, “we” or “Fu Shou Yuan Group”	the Company and its subsidiaries
“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.” or “Hefei Dashushan”	Hefei Dashushan Wenhua Lingyuan 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
“Helinge'er Anyou Cemetery”	a cemetery in Hohhot City of the Inner Mongolia Autonomous Region and operated by 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), 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, Xinzheng 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

DEFINITIONS AND GLOSSARY

“Hong Kong 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
“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, 2019
“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
“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

DEFINITIONS AND GLOSSARY

“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 Mr. 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
“Restricted Share Incentive Scheme”	the restricted share incentive scheme adopted by the Company with effect from November 29, 2019
“Restricted Shares”	any Share(s) that may be offered by the Company to any selected participant pursuant to the Restricted Share Incentive Scheme
“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 Group Co., Ltd.* (上海福壽園實業集團有限公司), formerly known as 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 States dollars, the lawful currency of the United States
“Wish and Catch”	Wish and Catch Limited, a limited liability company incorporated in BVI on June 28, 2013, wholly-owned by Mr. 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

DEFINITIONS AND GLOSSARY

“Xiyuan Fu Shou Yuan”	Chongqing Fu Shou Yuan Xiyuan Industrial Co., Ltd.* (重慶福壽園西苑實業有限公司), a limited company established under the laws of the PRC and a subsidiary of the Company
“Year”	year ended December 31, 2020
“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 Fu Shou Yuan Funeral and Burial Service Co., Ltd.* (棗莊市福壽園殯葬服務有限公司), formerly known as 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), 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.