THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China HealthCare Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any share in China HealthCare Holdings Limited.

China HealthCare Holdings Limited
中國衛生控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

VERY SUBSTANTIAL ACQUISITION AND INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

Financial Adviser to China HealthCare Holdings Limited

Hercules

Hercules Capital Limited

A notice convening a special general meeting of China HealthCare Holdings Limited to be held at 10:00 a.m. on 10 March 2011 at 5/F., Building 88, 1199 North Qin Zhou Road, Caohejing Hi-Tech Park, Xuhui District, Shanghai, China is set out on pages 343 to 344 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

23 February 2011

* *For identification purpose only*

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Acquired Assets"	the Target Group and the Other Assets
"Acquisition"	the acquisition of the Equity Interests and the Other Assets by the Purchaser and/or its nominees in accordance with the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 19 August 2010 (as amended and supplemented by the supplemental agreements dated 29 December 2010 and 17 February 2011) entered into between the Purchaser, the Guarantors, the Procurer and the Company in relation to the Acquisition
"Anhui Anhe"	Anhui Anhe Investment Consulting Co., Ltd. (安徽安合投資諮詢有限公司)
"Ascent Partners"	Ascent Partners Transaction Service Limited, an independent qualified professional valuer
"associate"	has the meaning ascribed to it under the Listing Rules
"BDO"	BDO Limited, Certified Public Accountants
"Board"	the board of Directors
"Capital Increase"	the proposed increase in authorized share capital of the Company from HK$500,000,000, divided into 5,000,000,000 Shares, to HK$10,000,000,000, divided into 100,000,000,000 Shares, by the creation of additional 95,000,000,000 Shares
"China Zhongfu"	China Zhongfu Industry Co., Ltd. (中國中福實業有限公司)
"Company"	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Conversion Share(s)"	new Share(s) to be issued by the Company upon conversion of the Convertible Notes

"Convertible Notes"	the convertible notes in principal amount of RMB2,858 million (equivalent to HK$3,316 million) at the date of issue with an initial conversion price of RMB0.344753 (equivalent to HK$0.40) per Conversion Share to be issued by the Company, as part of the consideration for the Acquisition, to the Procurer or the Nominee(s) in accordance with the terms and conditions of the Agreement
"Corporate Guarantors"	China Zhongfu, Shanghai Zhongfu and Anhui Anhe, being companies established under the laws of the PRC
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Acquired Assets
"Equity Interests"	the entire registered capital of the Target after the Reorganization
"Existing Convertible Notes"	the convertible notes in original principal amount of HK$50 million issued by the Company to certain independent investors
"Group"	the Company and its subsidiaries
"Guarantors"	the Corporate Guarantors and the Management Guarantors
"Hefei Dashushan"	Hefei Dashushan Culture Cemetery Co., Ltd. (合肥大蜀山文化陵園有限公司)
"Hefei Dashushan Group"	Hefei Dashushan and its wholly-owned subsidiaries, namely Hefei Renben Funeral Service Co., Ltd. and Hefei Huazhijian Co., Ltd.
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Initial Conversion Price"	RMB0.344753 (equivalent to HK$0.40) per Conversion Share
"JV"	a sino-foreign joint venture partnership established under the laws of the PRC by the SPV and the Management Guarantors for the purpose of acquiring the Equity Interests
"Last Trading Day"	19 August 2010, being the last trading day before the publication of the announcement of the Company dated 13 October 2010 in relation to the Acquisition and the Capital Increase

"Latest Practicable Date"	17 February 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Management Guarantors"	Mr. Wang Ji Sheng (王計生先生), an executive director and Managing Director of Shanghai FSY Group, and Mr. Ge Qian Song (葛千松先生), Deputy General Manager of Shanghai FSY Group
"New CN"	the convertible notes in an aggregate principal amount of HK$778.0 million to be issued by the Company to the New CN Subscribers pursuant to the New CN Subscription Agreement
"New CN Guarantors"	China Zhongfu, Tide Rejoice Limited and the Management Guarantors
"New CN Subscribers"	Carlyle Asia Growth Partners IV, L.P. and CAGP IV Co-Investment, L.P. and their associated parties, independent third parties not connected with the Company, the Procurer, the Guarantors and their respective connected persons, who will subscribe for the New CN
"New CN Subscription"	the possible subscription of the New CN by the New CN Subscribers pursuant to the terms of the New CN Subscription Agreement
"New CN Subscription Agreement"	a formal subscription agreement to be entered into between the Company, the New CN Subscribers and the New CN Guarantors regarding the New CN Subscription, the principal terms of which are set out in the New CN Subscription Term Sheet
"New CN Subscription Term Sheet"	the non-legally binding subscription term sheet dated 29 December 2010 entered into between the Company, the New CN Subscribers and the New CN Guarantors in respect of the New CN Subscription, details of which are set out in the Company's announcement dated 29 December 2010
"Nominee(s)"	the nominee(s) designated by the Procurer to receive any part of the consideration of the Acquisition

"Other Assets"	(i) the entire equity interest in Shanghai FSY Consulting; (ii) the 10% equity interest in Chongqing Anle Services Co., Ltd. (重慶安樂服務有限公司); (iii) the 80% equity interest in Chongqing Anle Funeral Service Co., Ltd. (重慶安樂殯儀服務有限公司); and (iv) the 10% equity interest in Shandong FSY
"PRC"	the People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Preference Shares"	15,000 redeemable convertible cumulative preference shares issued by the Company to certain investors in accordance with the terms and conditions of the subscription agreement dated 5 April 2006 entered into between the Company and the investors, which were subsequently transferred to Capital Foresight Limited
"Procurer"	Mascot Land Limited, a company incorporated in the British Virgin Islands with limited liability
"Purchaser"	Wingames Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Company
"Reorganization"	the reorganization in respect of (i) the establishment of the Target, the JV, the WFOE and the SPV pursuant to the Agreement; and (ii) the injection of the entire equity interest of Shanghai FSY and the Zhongfu Anhe Assets into the Target
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder and the Capital Increase
"Shandong FSY"	Shandong Fu Shou Yuan Development Co., Ltd. (山東福壽園發展有限公司)
"Shanghai FSY"	Shanghai Fu Shou Yuan Industry Development Co., Ltd. (上海福壽園實業發展有限公司)
"Shanghai FSY Consulting"	Shanghai Fu Shou Yuan Consulting & Management Co., Ltd. (上海福壽園諮詢管理有限公司)

"Shanghai FSY Consulting Group"	Shanghai FSY Consulting and its subsidiary, namely Chongqing Anle Funeral Service Co. Ltd.
"Shanghai FSY Group"	Shanghai FSY and its subsidiaries and associated companies, including (i) the 40% equity interest in Shanghai Nanyuan Industry Development Co., Ltd. (上海南院實業發展有限公司); (ii) 90% equity interest in Chongqing Anle Services Co., Ltd. (重慶安樂服務有限公司); (iii) 18% equity interest in Chongqing Anle Funeral Service Co., Ltd. (重慶安樂殯儀服務有限公司) held through Chongqing Anle Services Co., Ltd.; (iv) 20% equity interest in Hefei Dashushan; (v) 20% equity interest in Hefei Renben Funeral Service Co., Ltd. (合肥人本殯儀服務有限公司) held through Hefei Dashushan; (vi) 20% equity interest in Hefei Huazhijian Co., Ltd. (合肥花之間花卉有限公司) held through Hefei Dashushan; and (vii) 55% equity interest in Henan Fu Shou Yuan Industry Co., Ltd. (河南福壽園實業有限公司), before the completion of the Reorganization
"Shanghai Zhongfu"	Shanghai Zhongfu International Trading Co., Ltd. (上海眾福國際貿易有限公司)
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Shinewing"	Shinewing (HK) CPA Limited, Certified Public Accountant
"SPV"	an indirect wholly-owned subsidiary of the Company to be utilized for holding the Group's equity interest in the JV
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
"Target"	a limited liability company to be established under the laws of the PRC
"Target Group"	the Target and its subsidiaries after completion of the Reorganization
"US$"	United States dollar, the lawful currency of United States of America

"WFOE"	Shanghai New Everstep Consultancy and Management Ltd. (incorporated in Shanghai), a wholly foreign owned enterprise established under the laws of the PRC, which is indirectly wholly-owned by the Company and will be utilized for acquiring the Other Assets
"Zhongfu Anhe Assets"	(i) the 40% equity interest in Shandong FSY held by China Zhongfu; and (ii) the 40% equity interest in Hefei Dashushan held by Anhui Anhe as at the date of the Agreement
"%"	per cent

China HealthCare Holdings Limited
中國衛生控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

Executive Directors:
Li Zhong Yuan
Zhou Bao Yi

Non-executive Director:
Martin Treffer

Independent Non-executive Directors:
Mu Xiangming
Jiang Bo
Yan Shi Yun

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Unit C, 19/F.
Entertainment Building
30 Queen's Road Central
Hong Kong

23 February 2011

To the Shareholders, and for information only, the holders of the Preference Shares and the Existing Convertible Notes

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

INTRODUCTION

On 19 August 2010, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with, among others, the Procurer and the Guarantors, being independent third parties, to acquire the Equity Interests and the Other Assets for a total consideration of HK$3,360 million. The consideration shall be satisfied by the Company to the Procurer and/or the Nominees as to (i) HK$44 million in cash; and (ii) HK$3,316 million by the issue of the Convertible Notes.

* *For identification purpose only*

In order to facilitate the issue of the Conversion Shares which may be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes, the Board proposed to increase the authorized share capital of the Company from HK$500,000,000, divided into 5,000,000,000 Shares, to HK$10,000,000,000, divided into 100,000,000,000 Shares, by the creation of additional 95,000,000,000 Shares.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval by the Shareholders, by way of poll, at the SGM. The purpose of this circular is to provide you with, inter alia, (i) further details of the Acquisition and the Capital Increase; (ii) the financial information relating to the Group, the Acquired Assets and the Enlarged Group; (iii) the valuations of the Acquired Assets and the property interests of the Enlarged Group; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules.

THE AGREEMENT

Date

19 August 2010

Parties to the Agreement

Purchaser: Wingames Investments Limited, an indirect wholly-owned subsidiary of the Company.

Procurer: Mascot Land Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to about 35.5% by China Zhongfu, about 35.5% by Anhui Anhe and about 29.0% by Tide Rejoice Ltd., whose equity is legally held as to 60% by Mr. Wang Ji Sheng and 40% by Mr. Ge Qian Song. Economic interests of bulk of the shareholdings in Tide Rejoice Ltd. are held by Mr. Wang Ji Sheng and Mr. Ge Qian Song in trust for over a hundred of eligible staffs of Shanghai FSY Group. As at the Latest Practicable Date, the entitlement of shareholdings for each individual staff has not been finalized yet.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Procurer and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

To facilitate the collective purchase of the Acquired Assets, which comprise equity interests in a number of companies, as a whole from various vendors by the Group, the Procurer, which is owned by the parties who have controlling and substantial interests and also management and operational control in the Acquired Assets, was established to bundle the diversified interests in the Acquired Assets as a package instead of individual offerings for sale to the Group and act as a facilitator and representative of the vendors to negotiate with the Group in relation to the Acquisition.

The Procurer, whose shareholders have controlling equity interests and management and operational control in the Acquired Assets, shall be responsible for procuring all the beneficial owners of the Acquired Assets to transfer their respective interests in the Acquired Assets to the Purchaser and/or its nominees in accordance with the terms and conditions set out in the Agreement. Upon Completion, the Company shall issue the Convertible Notes and cash of HK$44 million to the Procurer as full settlement of the consideration for the Acquisition and no other consideration in any form shall be paid by the Group to individual vendors of the Acquired Assets. The Procurer shall be entitled to all the ownership, rights, obligations and restrictions relating to the Convertible Notes. The Company was confirmed by the Procurer that the abovementioned consideration settlement arrangement has been legally agreed by all vendors of the Acquired Assets.

Given that the abovementioned interests bundling and consideration settlement arrangements can significantly reduce the Group's time and effort for dealing with each of the individual vendors, ensure the purchase of a complete set of the interests in the Acquired Assets by the Group and align and integrate the stakeholders' interests for stability and continuity of the Acquires Assets, the Directors consider that such arrangements are in the interests of the Company and its Shareholders as a whole as compared to negotiating and dealing directly with each of the individual beneficial owners of the Acquired Assets.

Guarantors: China Zhongfu, Shanghai Zhongfu, Anhui Anhe and the Management Guarantors, which are responsible for the implementation of the Reorganization (details of which are set out in the paragraph headed "REORGANIZATION" in this circular).

China Zhongfu is principally engaged in import and export, service businesses and project investment. Shanghai Zhongfu, a company beneficially owned as to 85% by China Zhongfu, is principally engaged in trading and storage of petrochemical products in the PRC while Anhui Anhe is principally engaged in project investment, consulting and trading businesses. As at the date of the Agreement, China Zhongfu, Shanghai Zhongfu and Anhui Anhe were interested in 20%, 30% and 50% of the equity interest of Shanghai FSY respectively. Upon completion of the Reorganization, China Zhongfu, Shanghai Zhongfu and Anhui Anhe shall own 26.32%, 23.68% and 50.00% of the equity interest of the Target respectively. Save for being the common shareholders in Shanghai FSY and the Procurer, Anhui Anhe does not have any other relationships with China Zhongfu and Shanghai Zhongfu.

Mr. Wang Ji Sheng and Mr. Ge Qian Song, being the Management Guarantors, are Managing Director/Executive Director and Deputy General Manager of Shanghai FSY Group respectively. Mr. Wang Ji Sheng is an Executive Director of Chongqing Anle Services Co., Ltd., Chongqing Anle Funeral Service Co., Ltd. and Shandong FSY, and is also the Managing Director of Shanghai FSY Consulting. Mr. Ge Qian Song is a director of Henan Fu Shou Yuan Industry Co., Ltd., a subsidiary of Shanghai FSY. Save as being common shareholders of the Procurer and the management of Shanghai FSY Group, which is owned by the Corporate Guarantors, there are no other relationships between each of the Management Guarantors and the Corporate Guarantors.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Corporate Guarantors and their respective ultimate beneficial owners and the Management Guarantors are third parties independent of the Company and connected persons of the Company and none of the Guarantors has any relationship with the vendors and their respective ultimate beneficial owners of the Company's previous acquisitions.

Promissor: The Company

Assets to be acquired

The assets to be acquired under the Agreement include (i) the Equity Interests, being the entire equity interest of the Target, which is a limited liability company to be incorporated under the laws of the PRC whose major assets shall include Shanghai FSY Group and the Zhongfu Anhe Assets after the Reorganization; and (ii) the Other Assets.

Consideration

The total consideration for the Acquisition is HK$3,360 million, which shall be satisfied by the Company to the Procurer and/or the Nominees as to (i) HK$44 million in cash; and (ii) HK$3,316 million by the issue of the Convertible Notes. The Company intends to finance the cash consideration by internal resources.

The total consideration of the Acquisition was determined after arm's length negotiations between the Purchaser and the Procurer, having taken into account (i) the growth potential and prospects of the Acquired Assets, in particular the land available for the development of cemeteries owned by the Acquired Assets, the expected increasing trend of the selling price and servicing revenues of cemeteries and funeral houses in the PRC, the leading position of Shanghai FSY Group in the funeral industry in Shanghai (Shanghai FSY Group ranked the first in sales revenue for the sale of cemeteries in Shanghai for the six months ended 30 June 2010 according to the information published by Funeral Management Office of Shanghai) and the extensive operation network of the Acquired Assets in the PRC; (ii) the consideration adjustment mechanisms set out in the section of "Adjustments to the consideration of the Acquisition" in this circular; and (iii) the price-to-earnings ratio of the Acquired Assets of not more than 16.8 times implied by the total consideration of the Acquisition of HK$3,360 million and the 2010 Targeted Profit (as defined in the section "Adjustments to the consideration of the Acquisition" of this circular) of not less than HK$200 million.

In determination of the fairness and reasonableness of the consideration, the Company has considered the price-to-earnings ratios of all the companies (a) which are currently listed on the main board or growth enterprise market of the Stock Exchange; (b) which are principally engaged in the provision of funeral and cemetery services; and (c) over 50% of whose revenue in the latest financial year was derived from the PRC, for comparison purposes. On this basis and to the best knowledge of the Directors, the Company has identified only one comparable company, namely Sino-Life Group Limited (stock code: 8296), which meets all the abovementioned criteria. The price-to-earnings ratio of Sino-Life Group Limited was approximately 53.5 times as at the Last Trading Day.

Owing to the limitation of the sample size, the Company extended the scope of reference to those companies listed on the stock exchanges in the PRC or the United States of America and relaxed the criterion of territories of income source. To the best knowledge of the Directors, no listed comparable companies in the PRC meet the abovementioned criteria while three comparable companies in the United States of America which are principally engaged in the provision of funeral and cemetery services in the United States of America, namely Service Corporation International (stock code: SCI), a company listed on the New York Stock Exchange, Carriage Services Inc. (stock code: CSIV), a company listed on the New York Stock Exchange, and Stewart Enterprises Inc. (stock code: STEI), a company listed on the NASDAQ, have been identified. The price-to-earnings ratios of these comparable companies as at the Last Trading Day were in the range of approximately 12.3 times and 16.4 times.

The Directors noted that the scope of business and territory of operations and income source of the abovementioned comparable companies are not identical to those of the Acquired Assets. However, in the absence of any identical company in the market for comparison purposes and having considered that all the abovementioned comparable companies are in the same industry of the Acquired Assets, the Directors considered that it is fair and reasonable to use the abovementioned comparable companies as a reference to determine the fairness and reasonableness of the implied price-to-earnings ratio of the Acquired Assets.

Having considered that (i) the implied price-to-earnings ratio of the Acquired Assets of not more than 16.8 times falls within the range of price-to-earnings ratios of the market comparables of 12.3 times to 53.5 times; (ii) the funeral service industry in the PRC, being the most populous country, is under the mega trend of rapidly rising living standards, unprecedented urbanization, fast ageing demography and escalating mortality, and that quality funeral services and sites of cemetery in the PRC are scarce while the Acquired Assets command a leading status and brand in the industry and a network of geographically expanding and solidly performing operations; and (iii) the Acquired Assets have a solid track record of rapid profit growth in recent years and continued growth potential and scale prospect in a fast developing and expanding market, the Directors considered that the implied price-to-earnings ratio of the Acquired Assets of not more than 16.8 times is commensurate with the prevailing price-to-earnings ratios of the listed comparables identified by the Company.

The Directors noted that the consideration of the Acquisition represents a premium over the net assets value of the Acquired Assets. However, based on the above and the facts that market values of the lands authorized for cemeteries, the brand leadership and the scale value of a chain of geographically expanding operations owned by the Acquired Assets have not been fully reflected in the net assets value of the Acquired Assets and the Acquisition is subject to a condition precedent of obtaining an independent valuation on the Acquired Assets as at 30 September 2010 of not less than HK$3,360 million (please refer to Appendix V for the details of the valuation of the Acquired Assets), the Directors believe that the consideration of the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors consider that the 2010 Targeted Profit is neither a forecast of the future profits of the Acquired Assets nor a key determining factor for the consideration of the Acquisition. It represents only a target that the management of the Acquired Assets wishes to achieve for the year ended 31 December 2010 and a benchmark for the consideration adjustment. The consideration of the Acquisition will be adjusted in accordance with the actual profit of the Acquired Assets for the year ended 31 December 2010, instead of being fixed at an amount determined by the 2010 Targeted Profit.

Adjustments to the consideration of the Acquisition

The Procurer represents and warrants to the Purchaser that the Acquired Assets shall have an aggregate consolidated net profit of not less than HK$200 million for the year ended 31 December 2010 (the "2010 Targeted Profit") based on the accounting principles generally accepted in Hong Kong.

In the event that the aggregate audited consolidated net profit accruing to the Acquired Assets in respect of the 12 months ended 31 December 2010 is less than the 2010 Targeted Profit, the consideration of the Acquisition shall be reduced by such amount equal to the shortfall in profit multiplied by a factor of 16.8, provided that the maximum amount of adjustment in consideration shall not be more than HK$3,360 million.

The adjustment in consideration of the Acquisition, if applicable, shall be effected within 5 working days after the issue of the audited consolidated financial statements of the Acquired Assets for the year ended 31 December 2010 by reduction of the principal amount of the Convertible Notes up to a maximum of HK$3,316 million and then follow by cash payment up to a maximum of HK$44 million if the principal amount of the Convertible Notes is insufficient to cover the consideration adjustment. In the event that the Completion takes place before the issue of the audited consolidated financial statements of the Acquired Assets for the year ended 31 December 2010, 50% of the Convertible Notes shall be issued and placed in an escrow account maintained by a legal firm until the finalization of the adjustments to the consideration of the Acquisition. The Procurer shall, and shall procure the Nominees to, enter into such documents and perform such acts as may be required by the Company to effect the reduction of the principal amount of the Convertible Notes.

Principal terms of the Convertible Notes

The terms of the Convertible Notes were negotiated on an arm's length basis and the principal terms of which are summarized below:

Issuer	:	the Company
Principal amount	:	RMB2,858 million (equivalent to HK$3,316 million)
Issue price	:	100% of the principal amount of the Convertible Notes
Interest	:	Nil

Default interest : Interest will accrue from the maturity date at a rate equal to the lower of (i) 5% per annum; or (ii) the HK$ prime lending rate quoted by The Hongkong & Shanghai Banking Corporation Limited and published in The South China Morning Post, up to (but excluding) the date on which payment in full of the outstanding amount is made.

Maturity date : the tenth anniversary of the date of issue of the Convertible Notes

Conversion price : The Initial Conversion Price is RMB0.344753 (equivalent to HK$0.40), subject to adjustments in accordance with the terms and conditions of the Convertible Notes. Events triggering adjustments include share consolidation, share subdivision, capitalization of profits or reserves, capital distribution, rights issue, open offer and equity or equity derivatives issues. No adjustment involving an increase in the conversion price will be made, except in the case of share consolidation.

The Initial Conversion Price represents:

(i) a discount of approximately 67.21% to the closing price of HK$1.22 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 52.94% to the closing price of HK$0.850 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 44.90% to the average closing price of approximately HK$0.726 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a discount of approximately 24.95% to the average closing price of approximately HK$0.533 per Share as quoted on the Stock Exchange for the last thirty trading days up to and including the Last Trading Day; and

(v) a discount of approximately 12.47% to the average closing price of approximately HK$0.457 per Share as quoted on the Stock Exchange for the last sixty trading days up to and including the Last Trading Day.

The Initial Conversion Price was arrived at after arm's length negotiation between the Procurer and the Purchaser, with reference to the prevailing market price of the Shares of approximately HK$0.37 to HK$0.47 at the time of negotiation of the Initial Conversion Price during the period from May 2010 to July 2010. Having considered that (i) the closing price of the Shares were below HK$0.60 throughout the 12-month period immediately before 10 August 2010, the date on which an announcement regarding the negotiation of a possible acquisition was published by the Company; (ii) the sudden surge in the price of the Shares since 10 August 2010 may probably be prompted by market speculations about the Acquisition; (iii) the Company had net liabilities of approximately HK$21.8 million as at 31 March 2010; and (iv) the Initial Conversion Price represents a discount of only 12.47% to the average closing price of the Share for the last sixty trading days up to and including the Last Trading Day, being the negotiation period of the Acquisition, the Directors consider that the discount on the Initial Conversion Price to the closing price of the Share on the Last Trading Day is commercially justifiable and it is fair and reasonable so far as the Shareholders are concerned.

Conversion rights : The Convertible Notes carry the rights to convert the whole or part of their principal amount into Conversion Shares at the Initial Conversion Price during the conversion period at the discretion of the holders of the Convertible Notes provided that (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the Conversion Shares upon exercise of the conversion right will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.

Conversion period : The period commencing on the date immediately after the date of issue of the Convertible Notes and expiring on the date falling on the seventh day immediately before the maturity date of the Convertible Notes.

Conversion Shares : The Conversion Shares shall rank pari passu in all respects with the fully paid Shares in issue on the relevant conversion date and shall entitle the holders to participate in full in all dividend or other distribution paid or made on the Shares after the relevant conversion date other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor falls on or before the relevant conversion date.

Assuming that the Convertible Notes are fully converted into Conversion Shares at the Initial Conversion Price, a total of 8,290,000,000 Conversion Shares will be issued, which represent approximately 20.24 times of the existing share capital of the Company and approximately 95.30% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

		The Conversion Shares will be issued under a specific mandate, which will be sought at the SGM. Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.
Application of listing	:	No application will be made by the Company to the Stock Exchange or any other stock exchange for the listing of the Convertible Notes.
Redemption	:	The Company is obliged to redeem any outstanding Convertible Notes on maturity date by issuance of new Shares at RMB0.344753 (equivalent to HK$0.40) per Share if and to the extent that (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the new Shares upon redemption of the Convertible Notes will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules. In the event that any part of the outstanding Convertible Notes cannot be redeemed by issuance of new Shares due to the abovementioned restrictions, the redemption of the remaining balance of the outstanding Convertible Notes shall be postponed to the earliest possible time.
Transferability	:	Save for the lock-up provisions set out in the paragraph headed "Lock-up of the Convertible Notes and Conversion Shares" in this circular, the Convertible Notes shall be freely transferable to any person, provided that any transfer to a connected person of the Company is subject to prior approval of the Shareholders and compliance with the relevant requirements and provisions under the Listing Rules and applicable laws and regulations.
Voting	:	The holder(s) of the Convertible Notes shall not be entitled to attend or vote at any meeting of the Company by reason only of it/them being the holder(s) of the Convertible Notes.
Ranking	:	The Convertible Notes shall rank junior to all outstanding senior convertible notes of the Company but rank pari passu with all other outstanding subordinated convertible notes of the Company.

Lock-up of the Convertible Notes and Conversion Shares

The Procurer (acting for itself and each Nominee, if any) undertakes to the Purchaser and the Company that it will not transfer, dispose of or encumber (i) any Convertible Notes held by the Procurer, the Nominees or their respective affiliates; and (ii) the Conversion Shares converted therefrom, in each case at any time during the period commencing on the date of Completion and ending on the date of expiry of three years after the date of Completion unless with prior consent from the Company but the Conversion Shares are still subject to the same lock-up of three years after the date of Completion. However, each of the Procurer and the Nominees may transfer, dispose of or encumber the Convertible Notes or Conversion Shares in part or in whole to any of the Guarantors or their respective affiliates, provided that such Guarantors and affiliates shall be deemed as parties acting in concert and assume the same conversion restriction as set out in the Agreement.

Notwithstanding anything to the contrary in the Agreement, nothing in the Agreement shall prevent any of the Procurer and the Nominees from transferring, disposing of or encumbering (i) 700,000,000 Conversion Shares and/or such number of Convertible Notes held by the Guarantors or their respective affiliates that can be converted into such number of Conversion Shares (or in any combination between such Conversion Shares or Convertible Notes) commencing from the date falling six months after the Completion; (ii) an additional 400,000,000 Conversion Shares and/or such number of Convertible Notes held by the Guarantors or their respective affiliates that can be converted into such number of Conversion Shares (or in any combination between such Conversion Shares or Convertible Notes) commencing from the date falling eighteen months after the Completion; and (iii) an additional 600,000,000 Conversion Shares and/or such number of Convertible Notes held by the Guarantors or their respective affiliates that can be converted into such number of Conversion Shares (or in any combination between such Conversion Shares or Convertible Notes) commencing from the date falling twenty-four months after the Completion.

Equity incentive scheme

Shanghai FSY has allocated a pool of options to certain employees of Shanghai FSY Group to acquire up to 10% equity interests of Shanghai FSY (the "Shanghai FSY Options") at a pre-money valuation of HK$3,000 million, being the valuation of Shanghai FSY Group estimated by the management of Shanghai FSY with reference to the total consideration of the Acquisition and the contribution of approximately 90% of the total profit of the Acquired Assets by Shanghai FSY Group. The parties to the Agreement agreed that the Shanghai FSY Options would be replaced by a pool of options to acquire up to 10% equity interests of the SPV at a pre-money valuation of HK$3,360 million, being the valuation of the Acquired Assets estimated by the Procurer with reference to the total consideration of the Acquisition, subject to the compliance with Chapter 17 of the Listing Rules (the "SPV Options"), to be issued under the share option scheme to be adopted by the SPV in accordance with Chapter 17 of the Listing Rules. The Shanghai FSY Options, if any, shall be cancelled if and when the scheme of the SPV Options is adopted, which is expected to take place upon Completion and the fulfillment of all relevant requirements under Chapter 17 of the Listing Rules, including the approval by the Shareholders in a general meeting.

The exercise of the SPV Options may result in a deemed disposal and/or connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules respectively. The Company will, where applicable, comply with the relevant requirements under Chapter 14 and/or Chapter 14A of the Listing Rules upon exercise of the SPV Options.

Conditions precedent

Completion is conditional upon, inter alia:

(a) the passing of the relevant resolutions at the general meeting of the Company by the Shareholders for approving (i) the Capital Increase; and (ii) the Agreement and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules;

(b) the granting of the listing of, and permission to deal in, the Conversion Shares by the Listing Committee of the Stock Exchange;

(c) the Reorganization having been implemented and completed in manner reasonably satisfactory to the Purchaser, including without limitation all approvals, consents and acts (whether required under laws, codes, regulations or otherwise) for the purpose of or in connection with the completion of the Reorganization being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such provisions being obtained from the relevant authority and that the Purchaser having received all evidence that the Reorganization has been so implemented and completed;

(d) satisfactory completion of business, financial and legal due diligence on all relevant aspects of the Acquired Assets by the Purchaser;

(e) the Purchaser receiving a copy of the following legal opinions, each in form and substance reasonably satisfactory to the Purchaser:

    (i) a legal opinion from a firm of Bermuda qualified lawyers reasonably satisfactory to the Purchaser certifying that, among others, the issuance of the Convertible Notes to the Procurer or the Nominees will not violate any of the Bermuda laws and regulations and that all legal and regulatory procedures required under Bermuda laws and regulations shall have been completed;

    (ii) a legal opinion from a firm of the British Virgin Islands qualified lawyers reasonably satisfactory to the Purchaser, certifying that, among others, the Procurer and the Nominees, if any, have the legal capacity to hold the Convertible Notes and the Conversion Shares if the conversion right attached to the Convertible Notes is exercised; and

    (iii) a legal opinion from a firm of the PRC qualified lawyers reasonably satisfactory to the Purchaser, certifying, among others, the due incorporation of the Target and Shanghai FSY Group and the legality of the funeral service business including development, construction, promotion, sale and operation of cemetery under PRC laws and regulations;

(f) the formation of the Target, the JV and the WFOE (if applicable) with proper consents, approvals and/or acts by government authorities for the JV and the WFOE to make investments in funeral service industry under PRC laws and regulations;

(g) the Purchaser having received a valuation report relating to the valuation of the Acquired Assets as at 30 September 2010 prepared by a professional valuer acceptable to the Purchaser showing valuation amount of not less than HK$3,360 million;

(h) the holder of the Preference Shares, namely Capital Foresight Limited, having issued a written confirmation in an agreed form to the Company waiving all claims it may have against the Company and agreeing to the consummation of the transactions contemplated under the Agreement;

(i) all authorizations, approvals, waivers, permits or filings of any kind from any government authority, the Stock Exchange or any other regulatory authority necessary to be obtained under applicable laws and the Listing Rules in connection with the entering into and performance of the Agreement and related documents and for the consummation of all the transactions contemplated under the Agreement and related documents including but not limited to the sale and purchase of the Equity Interests and the Other Assets, the issue of the Convertible Notes and the allotment and issue of the Conversion Shares (which may be issued upon the exercise of the conversion rights attached to the Convertible Notes), which remain effective and in full force as of the date of Completion, shall have been received and obtained, and the waiting period required under any applicable laws prior to such transfer shall have expired;

(j) the granting of the permission for the issue of the Convertible Notes and the Conversion Shares by the Bermuda Monetary Authority, if required; and

(k) the authorized share capital of the Company having been increased from HK$500,000,000 to HK$10,000,000,000 divided into 100,000,000,000 Shares.

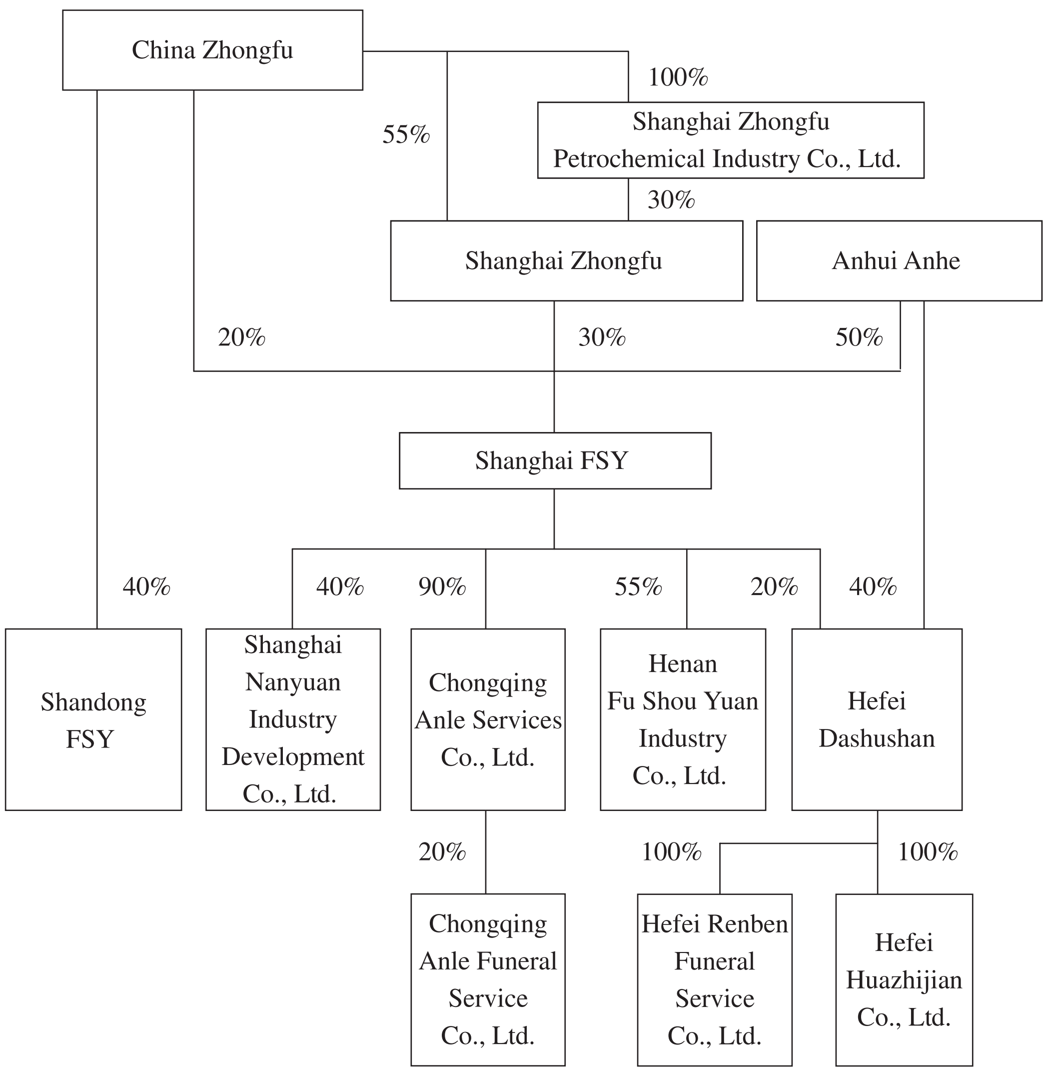
Completion shall take place at 10:00 a.m. on the third business day after the date on which all conditions are satisfied or, as the case may be, waived. The conditions (a), (b), (c), (f), (g), (h), (j) and (k) shall not be waived. The Purchaser may, to such extent as it thinks fit and is legally entitled to do so, at any time waive in writing any of the conditions (d), (e) and (i). If any of the conditions is not satisfied or, as the case may be, waived by the Purchaser on or before 5:00 p.m. on 31 March 2011, or such later date as agreed by the Purchaser and the Procurer in writing, the Purchaser shall not be bound to proceed with the Acquisition. If any of the conditions (h) and (k) is not satisfied on or before 5:00 p.m. on 31 March 2011, or such later date as agreed by the Purchaser and the Procurer in writing, the Procurer shall not be bound to proceed with the Acquisition. The Directors consider that having the right, but not an obligation, of waiving any of the conditions of (d), (e) and (i) by the Purchaser is in the interest of the Company and its Shareholders as it shall give flexibility for the Company to decide whether to proceed the Acquisition or not even if any of such conditions have not been fulfilled. The Directors also confirm that the Purchaser shall waive such conditions only if such act is in the best interest of the Company and its Shareholders.

As at the Latest Practicable Date, condition (g) has been fulfilled as the Purchaser has received a valuation report dated 17 February 2011 from Ascent Partners which shows that the Acquired Assets have a total value of approximately RMB3,270 million (equivalent to approximately HK$3,794 million). The valuation report relating to the Acquired Assets is set out in Appendix V to this circular.

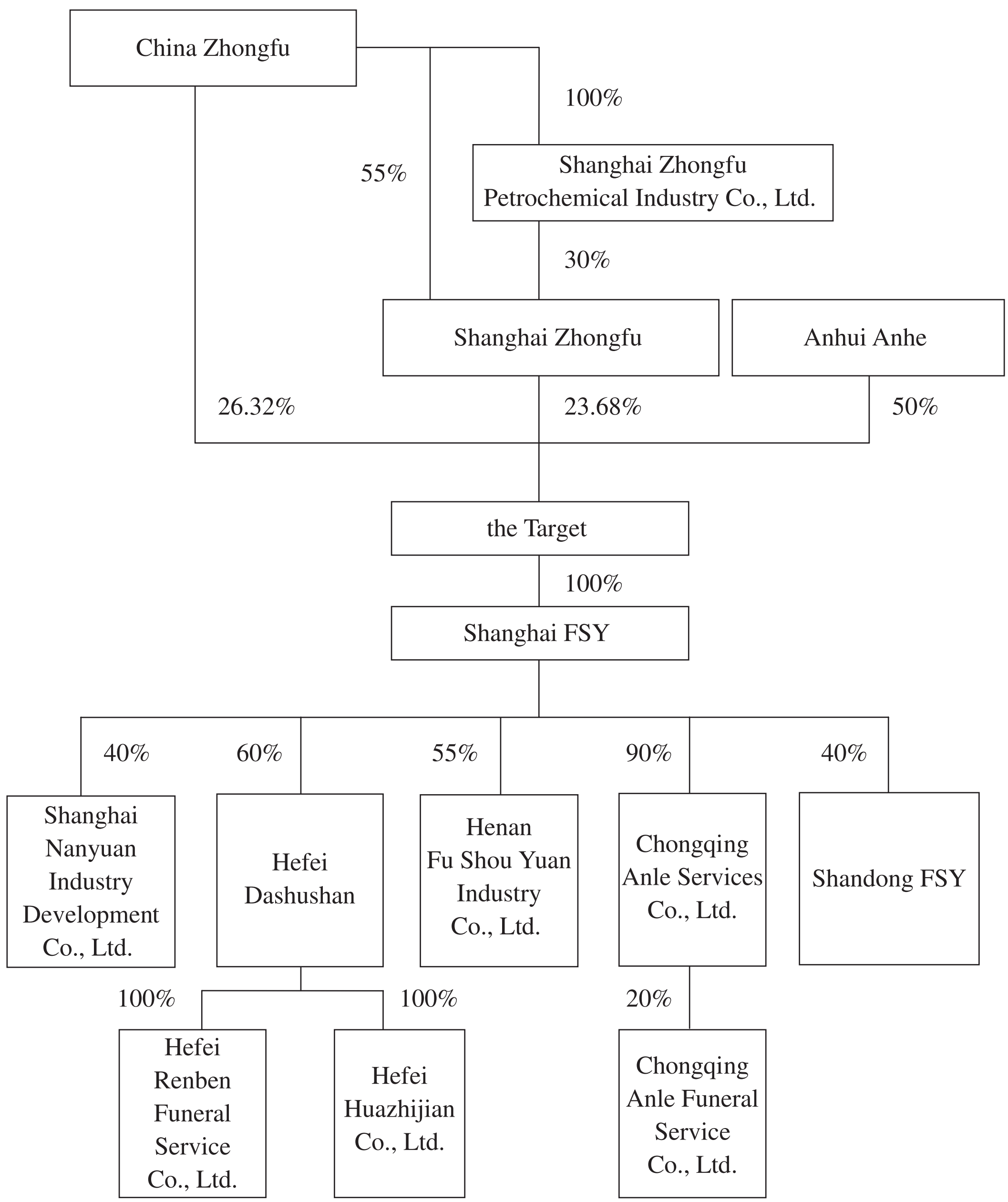
REORGANIZATION

As at the date of the Agreement, Shanghai FSY was owned as to 20% by China Zhongfu, 30% by Shanghai Zhongfu and 50% by Anhui Anhe while Shandong FSY was owned as to 40% by China Zhongfu and Hefei Dashushan was owned as to 20% by Shanghai FSY and 40% by Anhui Anhe.

The shareholding structure of Shanghai FSY Group and the Zhongfu Anhe Assets as at the date of the Agreement is shown as follows:

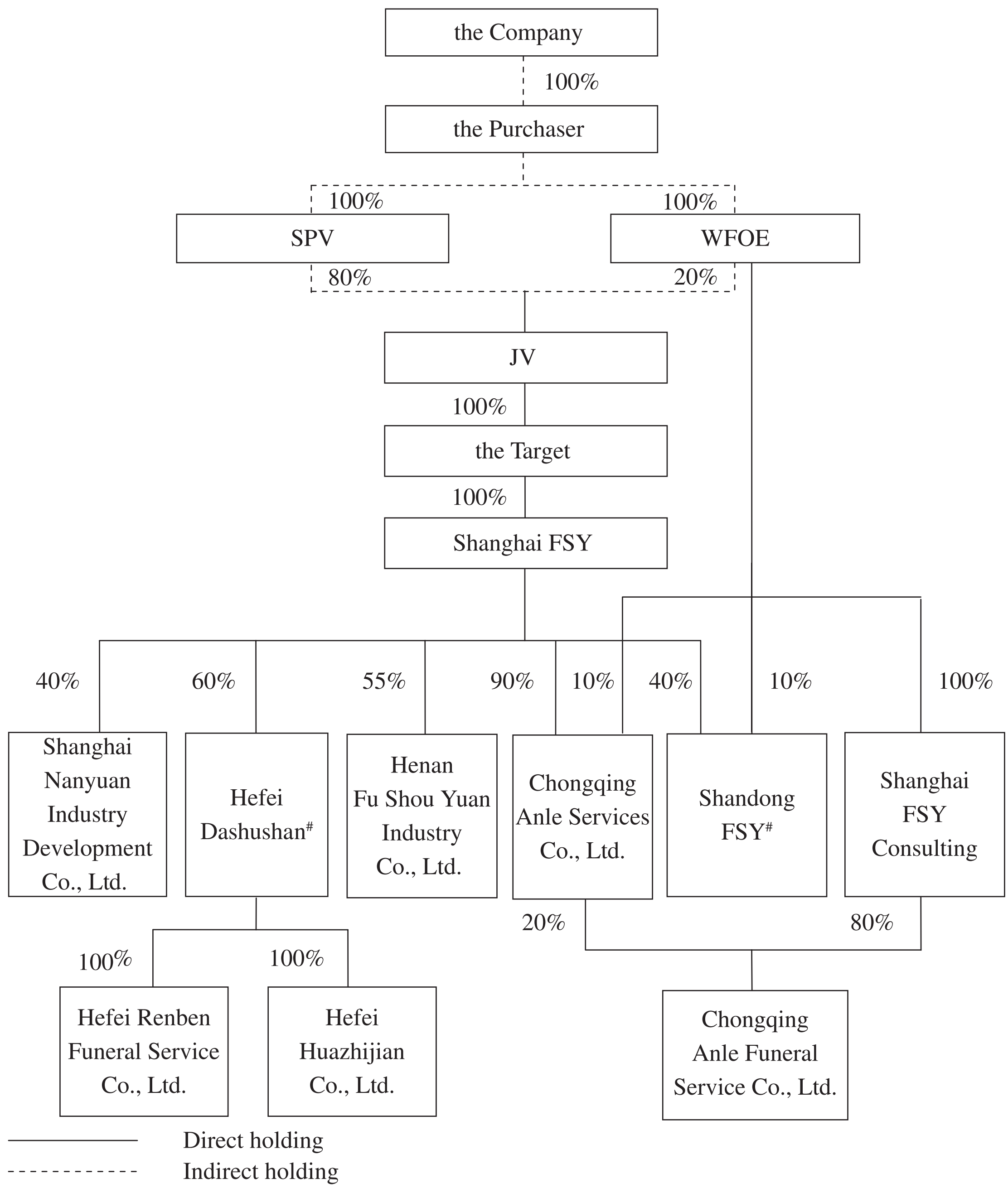


Before Completion, the Target shall be incorporated and beneficially owned as to 26.32% by China Zhongfu, 23.68% by Shanghai Zhongfu and 50% by Anhui Anhe. In order to consolidate the related interests in various companies, the equity interest of Shanghai FSY shall be transferred to the Target. In addition, the Zhongfu Anhe Assets, which comprises 40% equity interest in Shandong FSY and 40% equity interest in Hefei Dashushan, will also be injected into the Target. Therefore, the Target will be interested in 100% equity interest in Shanghai FSY and the Zhongfu Anhe Assets upon completion of the Reorganization. The shareholding structure of the Target Group upon completion of the Reorganization is shown as follows:



Meanwhile, the Company shall establish the SPV, the JV and the WFOE for investment holding purposes. The SPV and WFOE shall be indirectly wholly-owned by the Company through the Purchaser and the JV shall be temporarily owned as to 20% by the Management Guarantors and 80% by the SPV so as to meet the requirement on management expertise in funeral business imposed by the relevant regulatory authorities in the PRC for the registration of the JV. Before Completion, the 20% equity interest in the JV held by the Management Guarantors shall be transferred to the WFOE without additional cost to the Group. Having considered that the Reorganization shall simplify the shareholding structure and align and integrate the stakeholders' interests of the Acquired Assets, the Directors are of the view that the Reorganization is in the interest of the Company and the Shareholders as a whole.

Upon Completion, the Equity Interests shall be transferred to the JV while the Other Assets shall be transferred to the WFOE from the respective beneficial owners. The shareholding structure of the Acquired Assets upon Completion will be as follows:



Upon completion of the Acquisition, the Group will have the power to govern the financial and operating policies of these entities and obtain benefits from their activities.

INFORMATION ON THE ACQUIRED ASSETS

Overview

The Acquired Assets consist of the Target Group and Other Assets. The Target is a limited liability investment holding company to be established under the laws of the PRC. Upon its establishment, the Target will be owned as to 26.32% by China Zhongfu, 23.68% by Shanghai Zhongfu and 50.00% by Anhui Anhe. The major assets of the Target shall include Shanghai FSY Group and the Zhongfu Anhe Assets. Other Assets comprise (i) the entire equity interest in Shanghai FSY Consulting, which commenced its operations in September 2002 and was beneficially owned as to 80% by Ms. Li Jian Ning, the spouse of Mr. Wang Ji Sheng, who is one of the Management Guarantors, and 20% by Mr. Tan Li Kan as at the date of the Agreement; (ii) 10% equity interest in Chongqing Anle Services Co., Ltd., which commenced its operations in September 1997 and was beneficially owned by Mr. Wu Hua as at the date of the Agreement; (iii) 80% equity interest in Chongqing Anle Funeral Service Co., Ltd., which commenced its operations in January 2003 and was beneficially owned by Shanghai FSY Consulting as at the date of the Agreement; and (iv) 10% equity interest in Shandong FSY, which commenced its operations in December 2001 and was beneficially owned by Mr. Cao Ping as at the date of the Agreement.

The Acquired Assets are principally engaged in the provision of cemetery and funeral services in Shanghai, Chongqing, Anhui, Shandong and Henan, the PRC and their operations are mainly divided into three parts, namely cemetery operation, funeral house operation and consultancy and management operation.

Shanghai FSY is enjoying a leading professional status in the funeral industry in the PRC, as evidenced by its status of an executive council member of China Funeral Association, a committee member of the Cemetery Working Committee of China Funeral Association, a member of International Funeral Association, a member of International Cemetery, Cremation and Funeral Association and a member of Australasian Cemeteries and Crematoria Association. Furthermore, Shanghai FSY has been the sole organization exclusively authorized and entrusted by China Funeral Association to provide professional trainings to the practitioners of the funeral industry of the PRC, Japan, Malaysia and Mongolia since 1999. Participants completed the training courses shall be granted with a certificate issued by China Funeral Association, and so far over 1,500 participants of the training programs have obtained such certificates.

Business and revenue model

Cemetery operation

The Acquired Assets develop and construct cemeteries in the PRC for sale of cemetery property and related merchandises, including grave plots, niches for cremation urns, tombstones, stone and bronze memorials, funeral products and flowers. Cemetery property and merchandise sales are made both at the time of need and on a pre-need basis. In addition, the Acquired Assets provide a wide range of services in the cemeteries such as interments, burial sites openings and closings, funeral product installations, tombstone repair, inscriptions, sculpture, arrangement of funeral ceremonies and annual memorials and planting services.

Sale of cemetery property and related services as well as associated merchandises is the major source of income of the cemetery operation. The major cost components of the cemetery operation mainly comprise the amortization of land use right, cost of materials for merchandises, landscaping costs, selling expenses and taxation.

Currently, the Acquired Assets have five cemeteries in the PRC with a total sellable area of approximately 1,274,251 square meters. Details of the cemeteries operated by the Acquired Assets are shown as follows:

Name	Location	Property Owned/ Leased	Approximate Site Area (square meters)	Total Sellable Area (square meters)	Total Developed Area (square meters)	Un-developed Area (square meters)	No. of Total burial vaults available for sale as at the Latest Practicable Date	No. of burial vaults to be developed	Average price of burial vaults (RMB / unit)
Qingpu Fu Shou Yuan (青浦福壽園)	Qingpu, Shanghai	Partly owned and partly leased	599,222 Note 1	389,494	100,732	288,762	1,872	151,980	120,000
Harbour Cemetery (海港陵園)	Pudong, Shanghai	Partly owned and partly leased	100,523 Note 2	65,340	6,359	58,981	1,004	39,321	48,000
Henan Fu Shou Yuan (河南福壽園)	Longhu Town, Xinzheng, Henan	Partly owned and partly leased	368,544 Note 3	239,554	4,480	235,074	1,148	123,723	24,000
Shandong Fu Shou Yuan (山東福壽園)	Xiaoli Town, Changqing, Jinan, Shandong	Partly owned and partly leased	929,334 Note 4	522,857	13,248	509,609	2,108	268,215	40,000
Hefei Dashushan Cemetery (合肥大蜀山文化陵園)	Dashushan, Hefei, Anhui	Owned	87,702 Note 5	57,006	26,952	30,054	338	20,036	68,000
Total			2,085,325	1,274,251	151,771	1,122,480	6,470	603,275	

Notes:

1. Pursuant to four sets of Shanghai Certificates of Real Estate Ownership- Hu Fang Di Qing Zi (2007) Di No.010201, Hu Fang Di Qing Zi (2005) Di No.013833, Hu Fang Di Qing Zi (2007) Di No.009831 and Hu Fang Di Qing Zi (2007) Di No.009834 issued by Shanghai Housing and Land Resources Administration Bureau, the land use rights of four parcels of land with a total site area of approximately 402,034.3 square meters and building ownership rights of 57 buildings with a total gross floor area of approximately 20,981.69 square meters were allocated to Shanghai FSY for municipal facility projects and cemetery uses.

In addition, pursuant to various Land Tenancy Contracts entered into between Fengjing Village, Qing Pu Town, Qingpu District (青浦區青浦鎮楓涇村) and Shanghai FSY, various parcels of land with a total site area of 295.78 mu (approximately 197,188 square meters) were leased to Shanghai FSY for greenery and carparking purposes.

2. Pursuant to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Nan Zi (2008) Di No.012279 issued by Shanghai Housing and Land Resources Administration Bureau on 30 May 2008, a parcel of land with an area of 100,523.1 square meters was granted to Shanghai Nanyuan Industry Development Co., Ltd. for a term expiring on 30 December 2056 for cemetery facilities use.

3. Pursuant to seven sets of State-Owned Use Rights Certificate- Xin Tu Guo Yong (2005) Di Nos. 131-7 issued by Zhengzhou City Land and Resources Bureau on 1 July 2005, the land use rights of seven parcels of land with a total site area of approximately 302,191.18 square meters were granted to Henan Zhongzhou Min Ren Yuan Development and Management Company (河南中州名人園開發管理有限公司), which subsequently renamed as Henan Fu Shou Yuan Industry Co., Ltd. (河南福壽園實業有限公司), for a term expiring in June 2055 for mixed uses. Pursuant to the legal opinion provided by AllBright Law Offices, the PRC legal advisor of the Company, the abovementioned seven parcels of land can be used for cemetery.

   Pursuant to two Land Tenancy Contracts entered into between Xiaoqiao Village of Longhu Town (龍湖鎮小喬村) and Henan Zhongzhou Min Ren Yuan Development and Management Company, three parcels of land with a total site area of 34.0285 mu (or 22,686 square meters) were leased to Henan Zhongzhou Min Ren Yuan Development and Management Company for greenery and carparking purposes.

   In addition, pursuant to various Land Tenancy Contracts entered into between Boshuliu Village of Longhu Town (龍湖鎮柏樹劉村) and Zhengzhou Longhu Seedlings and Flowers Ltd. (鄭州龍湖苗木花卉有限公司), three parcels of land with a total site area of 65.5 mu (or 43,667 square meters) were leased to Zhengzhou Longhu Seedlings and Flowers Ltd. for greenery and carparking purposes.

4. Pursuant to Land and Affiliated Buildings Exchange and Compensation Contract (土地及地上附載物置換補償合同) Ji Fu He Zi (2006) Di No. 16 entered into between Villager Committee of Longquan Guanzhuang Village, Xiaoli Town (孝里鎮龍泉官莊村村民委員會) and Shandong FSY in October 2006, three parcels of land with affiliated buildings and structures with a total site area of approximately 1,395 mu (929,334 square meters) were agreed to be transferred to Shandong FSY for cemetery use.

5. Pursuant to a State-owned Land Use Rights Certificate – He Guo Yong (2002) Zi Di No.0226 issued by Hefei City Land Resources Bureau on 15 April 2002, the land use right of a parcel of land with a site area of 87,702 square meters was granted to Hefei Dashushan for a term expiring in December 2050 for cemetery use.

Qingpu Fu Shou Yuan is the flagship cemetery of the Acquired Assets. It is a first-class cemetery in the PRC. It embodies, defines and promotes humanity and dignity by combining traditional Chinese cemetery culture and art with modern management concept and service practice which offers a large variety of burial forms and tombstone styles and memorial services in different memorial sections. Thematic mausoleum and monuments, such as New Four Army Plaza, Memorial Wall for the Soul of the Interpol Police, the Monument for Remains Donors, Monument Park for Model Workers, Cialis Park (a mausoleum for members of Shanghai Cancer Rehabilitation Club) and Children's Park, were established in Qingpu Fu Shou Yuan. The scenic environment and remarkable sculpture art have made Qingpu Fu Shou Yuan become a unique cultural memorial park in the PRC. One of Qingpu Fu Shou Yuan's thematic mausoleum, New Four Army Plaza, was accredited as a 紅色旅遊基地 (Communist tourism base) by the Ministry of Civil Administration of the PRC in 2004. Qingpu Fu Shou Yuan was also accredited by International Funeral Association as the most beautiful cemetery in the East and awarded the 2010 National Leading Cemetery Award by the Ministry of Civil Administration of the PRC.

Fu Shou Yuan has been committed to develop environmental-friendly funeral products. Innovative funeral products such as 亭葬 (pavilion burial), 室內葬 (indoor funeral), 別墅葬 (villa funeral), 植樹葬 (tree-planting funeral), 花壇葬 (flower bed funeral), 草坪葬 (lawns funeral), 壁葬 (wall burial), 歐式銅板葬 (European copper burial) and 生態樹林葬 (forest burial) have been launched to promote eco-green burial concept.

"Fu Shou Yuan", being recognized as a brand of quality service, is enjoying the dominant position in Shanghai cemetery market. Qingpu Fu Shou Yuan's revenue size is almost double of its immediate next competitor in the market for the first half of 2010, according to the statistics published by Funeral Management Office of Shanghai. It has also obtained the ISO9001 Certificate and ISO9002 Certificate in product and service quality and ISO14001 Certificate in environmental protection.

Funeral house operation

The Acquired Assets are currently operating two funeral houses in Chongqing under the brand name of "Anle Tang" (安樂堂) and one funeral house in Anhui for the provision of funeral arrangement services. The funeral houses offer a complete range of professional funeral services, such as transportation of remains, preparation and make-up for remains, storage of remains, rental and decoration of halls and facilities for visitation and worship, arrangement of memorial and/or funeral ceremony and catering. The funeral houses also sell funeral related products such as urns and flowers.

Sale of funeral related services and products is the major source of income of the funeral house operation. Its cost components mainly comprise costs of sales, selling expenses, depreciation of fixed assets and taxation.

Consultancy and management operation

The Acquired Assets provide consultancy services to other cemetery operators in respect of planning, sales, management and design of cemeteries and design and manufacturing of tombstones and sculpture. Furthermore, the Acquired Assets also offer training to the participants of the funeral industry. Management fees, consultancy fees and/or project design fees will be charged to the clients for such services. Salary and taxation are major cost components of the consultancy and management operation of the Acquired Assets.

Financial information

The Acquired Assets have not prepared any consolidated accounts. The audited financial information of Shanghai FSY Group, Hefei Dashushan Group, Shandong FSY and Shanghai FSY Consulting Group, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, is summarized as follows:

Shanghai FSY Group

	For the nine months ended	For the year ended		
	30 September 2010	31 December 2009	31 December 2008	31 December 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	232,275	252,071	250,947	182,227
Profit before income tax	108,099	103,591	80,864	69,710
Profit after income tax and extraordinary items	87,863	80,144	61,555	44,521
Net profit attributable to shareholders of Shanghai FSY	75,713	73,536	56,627	46,393

	As at 30 September 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net assets attributable to shareholders of Shanghai FSY	116,940	113,632	109,232	93,509

The reporting accountants, BDO, have issued a modified opinion on Shanghai FSY Group's financial statements for the three financial years ended 31 December 2009 and the nine months ended 30 September 2010.

Extracts of the modified opinion from BDO are reproduced below:

"In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shanghai FSY Group as at 31 December 2007, 2008 and 2009 and 30 September 2010, and of its results and cash flows for the relevant periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

Without qualifying our opinion, we draw attention to Note B(1) to the financial statements which indicates that Shanghai FSY's current liabilities exceeded its current assets by approximately RMB31,404,000, RMB40,369,000 and RMB14,298,000 as at 31 December 2008 and 31 December 2009 and 30 September 2010 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about Shanghai FSY's ability to continue as a going concern."

The Directors would like to draw the Shareholders' attention to the fact that Shanghai FSY Group had net current assets of approximately RMB174.2 million, RMB159.1 million and RMB190.9 million as at 31 December 2008, 31 December 2009 and 30 September 2010 respectively although Shanghai FSY had net current liabilities at the relevant time. The management of the Acquired Assets confirms that other member companies of Shanghai FSY Group shall provide additional funding to Shanghai FSY in case Shanghai FSY is in need of working capital. Given the above, the Directors consider that Shanghai FSY shall have sufficient working capital for its daily operations and be able to continue as a going concern after completion of the Acquisition.

Hefei Dashushan Group

	For the nine months ended	**For the year ended**		
	30 September 2010	**31 December 2009**	**31 December 2008**	**31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	32,549	32,977	27,488	20,791
Profit before income tax	21,392	14,284	14,075	10,623
Profit after income tax and extraordinary items	16,045	10,700	11,163	8,383

	As at 30 September 2010	**As at 31 December 2009**	**As at 31 December 2008**	**As at 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net assets	31,307	15,262	14,562	14,009

Shandong FSY

	For the nine months ended 30 September 2010	For the year ended 31 December 2009	31 December 2008	31 December 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	16,305	15,364	11,464	9,093
Profit/(loss) before income tax	1,118	49	(2,581)	(3,261)
Profit/(loss) after income tax and extraordinary items	835	(148)	(2,147)	(2,750)

	As at 30 September 2010	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net liabilities	(9,818)	(10,653)	(10,505)	(8,358)

The reporting accountants, BDO, have issued a modified opinion on Shandong FSY's financial statements for the three financial years ended 31 December 2009 and the nine months ended 30 September 2010.

Extracts of the modified opinion from BDO are reproduced below:

"In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shandong FSY as at 31 December 2007, 2008 and 2009 and 30 September 2010, and of its results and cash flows for the Relevant Periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Financial Information for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

Without qualifying our opinion, we draw attention to Note B(1) to the financial statements which indicates that Shandong FSY incurred a net loss of approximately RMB2,750,000, RMB2,147,000 and RMB148,000 during the year ended 31 December 2007, 2008 and 2009. In addition, Shandong FSY's current liabilities exceeded its current assets by approximately RMB13,531,000, RMB14,645,000, RMB13,699,000 and RMB12,529,000 as at 31 December 2007, 2008, 2009 and 30 September 2010 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern."

As at 30 September 2010, the current liabilities of Shandong FSY included a loan from holding company of approximately RMB34,200,000. The holding company of Shandong FSY has issued a confirmation letter to Shandong FSY to confirm that it agrees to extend the maturity date of such loan for two years, subject to the completion of the Acquisition. Furthermore, the management of the Acquired Assets confirms that other member companies of the Acquired Assets shall provide additional funding to Shandong FSY in case Shandong FSY is in need of working capital. Given the above, the Directors consider that Shandong FSY shall have sufficient working capital for its daily operations and be able to continue as a going concern after completion of the Acquisition.

Shanghai FSY Consulting Group

	For the nine months ended	**For the year ended**		
	30 September 2010	**31 December 2009**	**31 December 2008**	**31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	13,112	15,771	16,021	12,408
Profit before income tax	3,355	2,758	1,518	4,069
Profit after income tax and extraordinary items	2,257	1,538	328	2,961
Net profit attributable to shareholders of Shanghai FSY Consulting	1,657	993	357	2,676

	As at 30 September 2010	**As at 31 December 2009**	**As at 31 December 2008**	**As at 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net assets attributable to shareholders of Shanghai FSY Consulting	10,415	8,758	7,765	7,408

Characteristics of products and services provided by the Acquired Assets

In the PRC, as nobody wants to be perceived as stingy or unfilial on funeral issues, especially for the family members of the deceased, graciously organized funeral compatible with spending capability remains a traditional culture of the Chinese. Therefore, the Acquired Assets differentiate and distinguish themselves from their competitors by consciously tailoring funeral products and services that meet the clients' needs and aspirations to their satisfaction. Fu Shou Yuan has successfully built up a reputation of high quality in the cemetery and funeral market. The cemeteries of the Acquired Assets are equipped with graceful environment, peaceful atmosphere, faultless facilities, stylish design and most importantly a cultural heritage with Fu Shou Yuan's gracious style which offer the customers a wide range of burial forms, tombstone styles and memorial services in different memorial sections to fit the customers' needs. The cemeteries also provide a large variety of personalized high quality value-added services to the customers.

The Acquired Assets' flagship cemetery, Qingpu Fu Shou Yuan, has attracted numerous deceased celebrities and politicians in the PRC and is the prime site of preference for high-end customers in Shanghai. Its selling price of the grave plots is generally much higher than that of its competitors in the region due to its service premium. According to the statistics released by Shanghai Funeral Management Office, in the first half of 2010, the average selling price of grave plots in Qingpu Fu Shou Yuan was approximately RMB108,600, which was approximately 154.9% higher than the average selling price of grave plots in other cemeteries in Shanghai of approximately RMB42,600 as market embraces Qingpu Fu Shou Yuan's service quality by awarding it service premium.

Owing to the relatively lower household income in the region where other cemeteries of the Acquired Assets are operated and the relatively short operation history of those cemeteries, the selling price of grave plots in other cemeteries of the Acquired Assets is lower than that of Qingpu Fu Shou Yuan. However, by taking advantage of the brandname, reputation and expertise of Qingpu Fu Shou Yuan as the centre of operating excellence, the management of the Acquired Assets expects that the selling price of other cemeteries operated by the Acquired Assets will rise steadily after standardization of the brandname of Fu Shou Yuan in all cemeteries operated by the Acquired Assets.

The funeral houses under the management of the Acquired Assets also emphasize on personalized services. They provide one-stop professional tailor-made services that suit the specific characters and accomplishments of the deceased. Personalized services, such as design and decoration of the funeral halls and arrangement of ceremony, are provided to clients throughout the whole process of the funeral so as to meet the specific needs of each client, representing a service oriented code of practice persistently promoted by the management.

Target customers

The target customers of the Acquired Assets are high-end consumers having high spending power with cultural literacy and knowledge and recognition on modern funeral concepts. Meanwhile, as a consistent effort of Fu Shou Yuan to be a good corporate citizen in the society, the Acquired Assets also provide public welfare funeral services for the needy in the society.

Sales and marketing

The Acquired Assets have maintained a sales force of 130 sales representatives. As at the Latest Practicable Date, 39 sales offices have been established in Shanghai, Henan, Shandong and Anhui. These sales offices are responsible for (i) promoting sale of funeral services and related products to customers in accordance with the pricing determined by the head office; (ii) completing the order placing procedures; and (iii) providing after-sales services to customers.

Detailed allocations of the sales representatives and sales offices are shown as follows:

Location	No. of sales offices	No. of sales representatives
Shanghai	15	47
Hefei	3	10
Chongqing	0	10
Shandong	6	16
Haigang	9	25
Henan	6	22
Total	39	130

Competitive strengths and weaknesses

Brand recognition and leading market position

The Acquired Assets have clear macro strategies to develop their businesses by integrating the modern funeral operation concepts into traditional Chinese funeral culture and have successfully gained a wide recognition from the public for quality products and services. The Acquired Assets have also won the title of "Model Unit" granted by Shanghai Municipal Government for successive years and Qingpu Fu Shou Yuan ranked the first in sales revenue for the sale of cemeteries in Shanghai for the six months ended 30 June 2010 according to the information published by Funeral Management Office of Shanghai. The brand recognition and leading market position of the Acquired Assets in Shanghai have enabled the Acquired Assets building customer confidence and further expanding their business in other areas of the PRC.

Proven management team

The Acquired Assets' overall development strategy is under the direction of the Chairman Mr. Bai Xiao Jiang, a business leader in the PRC with ground breaking accomplishments of successfully introducing DHL into the PRC market and building up the LuPu bridge in Shanghai. The Acquired Assets' operating team is headed by Managing Director, Mr. Wang Ji Sheng, a legendary figure in the PRC's funeral service industry, who has built up Fu Shou Yuan's franchise to its current leadership status, as acknowledged by the industry consensus, from scratch through a persistent devotion of more than 14 years. The operating team of Fu Shou Yuan is characterized by a service oriented, dynamic, innovative and pioneering culture that proactively foresees and reacts swiftly to address changing market conditions and emerging trends. The management believes that this culture has been critical for the Acquired Assets' success and will provide advantage to the Acquired Assets as the funeral industry in the PRC evolves and grows.

All the key members of the management team of the Acquired Assets are dedicated veterans with proven track records in the funeral industry of the PRC. They have extensive experience in the industry and extensive connections with stakeholders, practitioners and participants of the funeral industries, government authorities and funeral professional associations in the industry. Furthermore, with continuous training and study tours to gain exposure to global market place, a team of experienced staff has been set up and the employees of the Acquired Assets are capable of providing personalized funeral services to cater for the demand of the customers.

Ideal location and good environment of the cemeteries

The cemeteries of the Acquired Assets are located in ideal locations of major cities of the PRC with splendid and graceful environment.

Qingpu Fu Shou Yuan is located in Qingpu District of Shanghai and it is surrounded by Sheshan Mountain, Tian Ma Shan Mountain and Dianshanhu Lake. It is accessible by 40 minutes' drive from the city center of Shanghai. Harbour Cemetery is located in Shuyuan Town, Lingang New City, Pudong District of Shanghai and it is close to Xianhua Harbour and Donghai Bridge. Henan Fu Shou Yuan is located in Longhu town, west to the National Highway No. 107, and it is around 10 kilometers away from the city center of Zhengzhou. Shandong Fu Shou Yuan is located in Xiaoli Town and it is surrounded by Dafeng Mountain, Xiaotang Mountain and Qi Great Wall. Hefei Dashushan Cemetery is located in the western suburb of Hefei and it is around 9 kilometers away from the city center of Hefei.

One-stop solutions

The Acquired Assets offer a complete range of personalized funeral services and products to their customers, including initial planning for arrangement of funeral and interment, the organization and implementation of the funeral and cemetery for interment.

Limitation on land for development of cemeteries

The PRC's funeral industry is stringently regulated by the PRC government and it requires considerable efforts and resources to obtain government approval for developing a land for cemetery purposes. The Acquired Assets are operating five cemeteries in the PRC with a total sellable area of approximately 1,274,251 square meters, of which 151,771 square meters have been developed. Accordingly, lands of only approximately 1,122,480 square meters are available for further development. The Acquired Assets may be constrained to secure additional lands for further development of cemeteries.

Business strategies and development plans

The Acquired Assets plan to broaden their services and step up their "service premium" value creation by pursuing more affiliations with faith-based organizations, non-profit entities and municipalities so as to construct and develop customized mausoleum on the cemeteries operated by the Acquired Assets for those affiliated organizations to serve and satisfy consumer demands.

In response to the changing preferences of the customers for more personalized memorial services and merchandize for funerals, the Acquired Assets shall also train their funeral arrangers and sales representatives to be more proficient in their ability to offer their customers a broad range of options, taking full advantage of Fu Shou Yuan's unparalleled capability to design a personalized service that reflects the special interests and accomplishments of the deceased. Custom funeral planning programs will be launched in all of the Acquired Assets' funeral houses and continuous professional training will be provided to the staff in order to keep them up-to-date on the selection of merchandises and services offered by the Acquired Assets. The management of the Acquired Assets believes that professional customized services and merchandises can further enhance customer satisfaction and lead to higher revenue per event.

The Acquired Assets will also continue to expand their cemetery and funeral operations in the PRC through generic growth or targeted acquisitions of cemeteries and funeral houses with a focus on serving the customer categories of Fu Shou Yuan's niche. It is anticipated that two new cemeteries will be constructed in Beijing and Hefei respectively in the next three years with a total investment cost of approximately RMB420 million. In addition, a funeral house will be established in Wuhan by converting an existing property into a funeral house in the next three years with an estimated investment cost of approximately RMB80 million. The above developments will be financed by the Acquired Assets' internal resources and/or bank borrowings. In order to retain the land resources for future cemetery development, the Acquired Assets will continue to adopt the existing policy to maintain a steady growth in the number of grave plots and niches to be sold by controlling the supply of grave plots and niches.

The Acquired Assets will utilize the Internet, as a long term strategic growth initiative, to promote marketing and sales and create new customer relationships. Further improvement will be made on the internet websites of the Acquired Assets' funeral houses and cemeteries so that relatives and friends of the deceased can access the websites to obtain information and schedule of services and read an obituary, write condolences or sign a guest book. Visitors to the websites can also order flowers or other gifts to support the family of the deceased, make personal photobooks and create permanent online memorials for the deceased. The Acquired Assets also plan to set up an online virtual cemetery to facilitate the needs of remote commemoration in the next three years. The management of the Acquired Assets expects that the capital requirement for the website development is limited and it will be financed by internal funding of the Acquired Assets.

Meanwhile, Fu Shou Yuan has been the first of its class in the PRC to establish a humanities museum in Qingpu Fu Shou Yuan to introduce the modern funeral concepts to the public and promote the philosophy of "Fu Shou Yuan". This enabled the Acquired Assets to distinguish themselves from the market and enhance their brand dominance.

Feasibility study

The Company has performed a feasibility study on the Acquired Assets. Such feasibility study includes reviews and analysis on the Acquired Assets' background, products and services provided, industry background, legal environment, target market environment, business model, management and personnel, financial projections, development strategy and capital requirements.

The feasibility study results indicate that the Acquired Assets possess number 1 brand name in domestic cemetery industry and a dominant position in Shanghai market. Meanwhile, it has growing importance in funeral service industry and regions other than Shanghai. The Acquired Assets have distinguished themselves by providing high-value added services to their customers and promoting their philosophy of service focus, innovation and cultural heritage in the cemetery industry. The funeral service industry in the PRC is traditionally run by the State, however with the social and economic development, this industry is in the process of opening to private and foreign investors to accommodate and satisfy changing needs and demands of the Chinese public under rapid economic growth. This change will lead to a substantial industry pattern reform which provides opportunities for well prepared market players with brand, service culture, network and talents such as the Acquired Assets. The target market size of the PRC's funeral service is enormous but fragmented. With the PRC's huge population and the facts of accelerating aging of society and unprecedented urbanization, the market demands for cemetery and funeral service products are expected to be rising rapidly and one or more market leaders with scale are expected to emerge to meet such demands. The Acquired Assets' service oriented culture and business and revenue model have proved to be viable from its past performance. The Acquired Assets have high quality and experienced staff. Their senior management at both group level and subsidiary level are loyal and dedicated to Fu Shou Yuan. Meanwhile, the Acquired Assets provide systematic trainings to their staff and professionals in the PRC funeral service industry to create a sustainable human resources program to cultivate young people and to ensure various management levels with fresh blood, to enable continued fast generic growth and prepare for long contemplated scale-up. The Directors believe that the Acquired Assets have a uniquely solid foundation for strong growth and fast scale up potential in the target market.

The Company also studied the risk factors such as lacking experience in the cemetery and funeral service industry, government policy on the industry and uncertainties concerning the expansion of Acquired Assets' business. The Company believes that these risks can be managed and mitigated given the full commitment and dedication of the Acquired Assets' management team, the Acquired Assets' remarkable track record, industry status and promising prospect of the industry.

Senior management of the Acquired Assets

Mr. Bai Xiao Jiang (白曉江)，aged 52, has been the Chairman of Shanghai FSY since 1996. Mr. Bai is responsible for the development of the overall business strategy of Shanghai FSY Group. He has also been the President of China Zhongfu, the founder and major shareholder of Shanghai FSY, since 1996.

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 China Zhongfu, during the period from 1990 to 1995. Mr. Bai is a senior engineer and a business leader in the PRC with ground breaking accomplishments, such as successfully introducing DHL into the PRC market and building up the LuPu bridge in Shanghai. Mr. Bai is a member of the 6th, 7th and 8th central committee of China Democratic National Construction Association (中國民主建國會) and a member of the 8th, 9th and 10th Chinese People's Political Consultative Conference, Shanghai. He has 14 years of experience in the funeral service industry and has served the Acquired Assets for about 14 years.

Mr. Wang Ji Sheng (王計生)，aged 57, has been the Managing Director and an executive director of Shanghai FSY since 1996. Mr. Wang is responsible for the overall management and operation of Shanghai FSY Group. He is also an executive director of Chongqing Anle Services Co., Ltd., Chongqing Anle Funeral Service Co., Ltd. and Shandong FSY, and the President of Shanghai FSY Consulting.

Mr. Wang has completed the advanced modern management course organized by National University of Singapore and the advanced training courses for presidents organized by Shanghai Jiaotong University. Mr. Wang worked as a teacher in Shanghai Institute of Foreign Trade from 1980 to 1991 and was appointed as the deputy general manager of China Zhongfu, the founder and major shareholder of Shanghai FSY, in 1991. Mr. Wang is a legendary figure in the PRC funeral service industry and has built up Fu Shou Yuan's franchise to its current leadership status, as acknowledged by the industry consensus, from scratch through a persistent devotion of more than 14 years. Mr. Wang is an executive council member of China Funeral Association and the Chairman of the Cemetery Committee of China Funeral Association. Mr. Wang has also been a lecturer of the courses organized by China Funeral Association for the senior management of cemeteries since 1999. Mr. Wang has 14 years of experience in the funeral service industry and has been in service with the Acquired Assets for about 14 years.

Mr. Ge Qian Song (葛千松), aged 62, has been appointed as Deputy General Manager and the secretary of the board of directors of Shanghai FSY since 1995. Mr. Ge is principally responsible for the sales, marketing and art creation of Shanghai FSY Group. He is also the Managing Director of Henan Fu Shou Yuan Industry Co., Ltd. and Chongqing Anle Services Co., Ltd., both are subsidiaries of Shanghai FSY.

Mr. Ge has completed the advanced training courses for presidents organized by Shanghai Jiaotory University and the continuous educational courses organized by Tsinghua University. Mr. Ge worked for Funeral Management Office of Shanghai Civil Affairs Bureau from 1977 to 1991 as the deputy director and director of Shanghai Longhua Funeral House. From 1991 to 1993, Mr. Ge served in Xiao Ao (Japan) Co., Ltd. (日本曉奧公司), a company principally engaged in the provision of flowering services, as a deputy general manager. Mr. Ge was employed as the general manager of Shimazaki Co., Ltd. (日本島崎株式會社) from 1993 to 1995. Mr. Ge has been the Vice Chairman of the Technology and Cultural Committee of China Funeral Association since May 1995. Mr. Ge has 33 years of experience in the funeral service industry and has been in service with the Acquired Assets for about 15 years.

Mr. Tan Li Kang (談理康), aged 47, was appointed as the Assistant of the General Manager in 1995 and has been promoted to his present position as the Deputy General Manager of Shanghai FSY since 1998. Mr. Tan is also the Executive Deputy General Manager of Shanghai Nanyuan Industry Development Co., Ltd. Mr. Tan is responsible for greenery design and engineering and construction of cemeteries of Shanghai FSY Group.

Mr. Tan graduated from the Architecture Department of the Workers of Coal Mine University, Pingxiang, Jiangxi (江西萍鄉煤礦職工大學) in 1988 and continued his study in San Diego State University and the Business School of East China Normal University (華東師範大學商學院) afterwards. Mr. Tan completed the advanced modern management course organized by National University of Singapore and obtained a master's degree in Business Administration from Macau University of Science and Technology. He worked in Jiangxi Fenyi Coal Mine Machinery Factory (江西省分宜煤礦電機廠) from 1988 to 1992. From 1992 to 1995, Mr. Tan served as a manager in the Shanghai Office of Ji Feng International Company Limited (國際濟豐股份有限公司上海辦事處), which is principally engaged in the business of manufacturing of paper and packaging materials. Mr. Tan has 15 years of experience in the funeral service industry and has been in service with the Acquired Assets for about 15 years.

Ms. Yi Hua (伊華), aged 42, has been appointed as the deputy general manager of Shanghai FSY since 2006. Ms. Yi is responsible for corporate brand building, business planning and administrative function of Shanghai FSY Group.

Ms. Yi graduated from Shanghai School of Administration (上海市行政管理學校) in 1988. Ms. Yi completed the integrated marketing postgraduate courses co-organized by the Business School of Fudan University and University of Hong Kong in 2003 and the advanced training courses for president organized by Shanghai Jiaotong University in 2005. She worked in Shanghai Tin Material Factory (上海鉛錫材料廠) as a secretary of the management office from 1988 to 1990 and worked as an administrative assistant in the Shanghai Office of American Asia Pacific International Group (美國亞太國際集團上海辦事處) from 1990 to 1993. In 1993 to 1995, Ms. Yi served as the head of marketing department of Hollywood Real Estate (好萊塢房地產) and was employed by Hong Kong Tianhe Clothing Company Limited (香港天和製衣有限公司) as the manager of public relation department from 1995 to 1996. Ms. Yi has served for Shanghai FSY since June 1996 and is the secretary of the Experts Committee of China Funeral Association. Ms. Yi was awarded the Top Ten Chinese Publicist Gold Medal Award in 2007 and the Boao Public Relation Ambassadors in 2010. Ms. Yi was also awarded eight Domestic and International Planning Awards during her 15 years' of service in the cemetery industry. Ms. Yi is the secretary of the "Xing Xing Gang" Project (星星港專項基金) of the Shanghai Charity Foundation (上海慈善基金會). Ms. Yi has 14 years of experience in the funeral service industry.

The Company intends to retain all the above-mentioned senior management members for managing the Group's funeral related businesses although the Company has no current intention to appoint them as members of the Board upon completion of the Acquisition.

INDUSTRY OVERVIEW

Economy of the PRC

The economy of the PRC has grown significantly since the economic reforms in the late 1970's. The reform of the PRC's economy further accelerated as a result of the accession to the World Trade Organization in 2001. According to the China Statistical Yearbook 2009, the gross domestic product ("GDP") of the PRC increased from approximately RMB10,965.5 billion in 2001 to approximately RMB30,067.0 billion in 2008 while the GDP per capita increased from approximately RMB8,622 in 2001 to approximately RMB22,698 in 2008. The GDP of the PRC was approximately RMB33,535.3 billion in 2009, representing an increase of approximately 8.7% as compared to 2008.

In line with the continuous development of the PRC's economy, the living standards and affluence of the population in the PRC have improved significantly in the past decade. According to the statistics released by the National Bureau of Statistics, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 in 2000 to approximately RMB17,175 in 2009, while the per capita annual net income of rural households in the PRC increased from approximately RMB2,253 in 2000 to approximately RMB5,153 in 2009. The increase in per capita annual disposable income of urban households in the PRC and per capita annual net income of rural households in the PRC for the year ended 31 December 2009 was approximately 9.8% and 8.5% respectively as compared to the last year.

Population of the PRC

According to the China Statistical Yearbook 2009, the population of the PRC has been increasing from approximately 1.25 billion in 1998 to approximately 1.33 billion in 2008. The population aged over 65 accounted for approximately 6.70% of the total population in 1998. Such sector of the population increased at an average annual growth rate of approximately 2.31% and accounted for approximately 8.25% of the total population in 2008. In addition, the mortality rate of the PRC increased from 0.65% in 1998 to 0.71% in 2008. The above statistics demonstrates that the PRC is facing an aging problem and a strong demand of funeral services.

The total population, percentage of population aged over 65 and number of deaths in Shanghai, Chongqing, Anhui, Shandong and Henan, where the operations of the Acquired Assets are located, in 1998 and 2008 are summarized as follows:

	1998			**2008**		
	Total population	**% of population aged over 65**	**No. of deaths**	**Total population**	**% of population aged over 65**	**No. of deaths**
	'000	*%*	*'000*	*'000*	*%*	*'000*
Shanghai	14,640	13.08	102.48	18,880	13.04	116.49
Chongqing	30,600	8.45	235.01	28,390	11.96	178.86
Anhui	61,840	7.69	404.43	61,350	10.74	404.91
Shandong	88,380	8.34	540.89	94,170	9.75	580.09
Henan	93,150	7.05	593.37	94,290	7.82	608.17

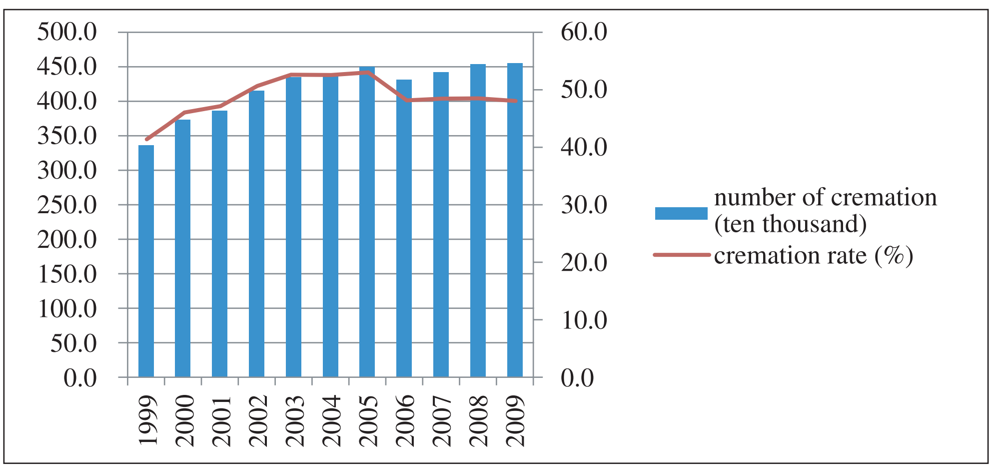
Source: China Statistical Yearbook 2009

As shown in the above statistics, the percentage of population aged over 65 in Chongqing, Anhui, Shandong and Henan have increased substantially in the past decade. In particular, the percentage of population aged over 65 in Chongqing increased by more than 41% from 8.45% in 1998 to 11.96% in 2008. It reveals that these cities are facing a severe aging problem. Shanghai, Anhui, Shandong and Henan also recorded an increase of approximately 13.7%, 0.1%, 7.2% and 2.5% in number of deaths in 2008 as compared to 1998 respectively. The increases in number of deaths unavoidably boosted the demand for funeral services.

The development of urbanization in the PRC accelerated in a quick pace during the past twenty years. According to the China Statistical Yearbook 2009 and China Statistical Bulletin of Economic and Social Development 2009, the rural population accounted for approximately 73.6% of the total population in 1990 and such percentage has been reduced to approximately 53.4% in 2009. As a result of urbanization, the demand for modern funeral services increased significantly. The number of remains cremated in the PRC was approximately 4.5 million in 2009 as compared to approximately 3.0 million in 1997 and the rate of cremation in the PRC increased from approximately 41.5% in 1999 to approximately 48.2% in 2009. It is expected that the cremation rate will continue to increase given the promotion by the PRC government.

The following chart demonstrates the rate and number of cremation in the PRC during the period from 1999 to 2009.

The cremation rate and number of cremation in the PRC, 1999-2009



Source: Development of Civil Affairs Report 2006-2009 (民政事業發展統計報告2006-2009)

Demand and supply of funeral products and services in the PRC

The expanding populations, unprecedented urbanization and the growing trend of aged population in the PRC provide the funeral service industry with ample growth opportunities. Although life expectancy in the PRC increased from 68.55 in 1990 to 71.40 in 2000 owing to the improvement of public health and medical care, the number of deaths in the PRC has been increasing and leading to greater demand for funeral and cemetery services. The market practitioners of the funeral industry in the PRC forecasted that the market size of the funeral industry in the PRC would reach approximately RMB200 billion in the next five years.

In general, the Chinese people believe that the splendor of the funeral shows the extent of respect and love of the posterity to the deceased and the social status of the deceased. Therefore, the Chinese people are eager to arrange luxurious and magnificent funerals for the deceased and large-scale and high-end public decorum is gaining popularity in major cities of the PRC.

The customers' demand for quality comprehensive funeral services has gradually led to the demand for more professional service providers who can offer one-stop services such as assisting customers in setting up funeral committees, planning the entire funeral and arranging for materials and items necessary for funerals. In the last few years, the PRC Ministry of Civil Affairs and China Funeral Association organized professional forums, educational seminars and academic courses aimed at improving the quality of funeral and other ancillary services provided by funeral enterprises and their employees, such as educating advanced embalming methods, promoting improvement in cemetery design and management of the funeral enterprises. This demonstrates the increasing demand for quality funeral-related services and for more professional service providers.

Apart from the traditional festivals such as Ching Ming Festival and Chinese Winter Solstice Festival, different provinces and areas have their own festivals and funeral customs to worship the deceased. Therefore, funeral services offered by the participants in the funeral industry have to be tailor-made to fit the needs in different provinces and areas in the PRC.

Given that the funeral industry is related to the public interest, the central government of the PRC imposes stringent controls over the funeral industry. The number of funeral service providers in a city or region is controlled by the central government of the PRC and approval from the Ministry of Civil Affairs is necessary before obtaining the business registration for funeral business from the State Administration for Commerce and Industry. According to the Development of Civil Affairs Report 2009, as at the end of 2009, there were 3,896 enterprises and units operating as funeral and interment institutions, of which (i) 1,266 were cemeteries managed by the Ministry of Civil Affairs as compared to only 359 cemeteries in 1997; (ii) 1,729 were funeral houses as compared to 1,289 funeral houses in 1997; and (iii) 901 were government-managed units as compared to 799 units in 2007. Up to 2009, there were approximately 74,000 people employed by the funeral industry, representing almost 3 times of the number employed in 1997.

Despite the increases in number of funeral houses and service providers in recent years, the existing funeral facilities in the PRC are insufficient to serve the increasing demand in the PRC. According to the 2010 Green Paper on China Funeral Industry published in March 2010, the annual number of deaths is approximately 1.6 million in the United States of America and there are in total 22,000 funeral houses and numerous cemeteries to cater the demand of funeral services while the annual number of deaths is approximately 1.0 million in Japan and there are in total 3,000 crematoria. On the other hand, there are approximately 15% of the cities and 60% of the counties in the PRC do not have crematoria, funeral houses and cemeteries. In the city centre of Shanghai, which has a population of approximately 10.0 million, there are only two funeral houses and each of them needs to handle 42,000 remains per annum.

The stringent requirements for the entry of the funeral industry in the PRC result in the lack of competition and lead to monopoly of certain funeral service providers in certain regions. Although the central government of the PRC has substantially increased its investment in the funeral service sector in the past few years, its investment in the funeral industry is limited and unable to satisfy the market's demand. Given the long-term imbalances in demand and supply of the funeral industry, it is expected that the central government of the PRC shall introduce structural changes in the industry so as to further improve the market conditions in the near future.

Major Customers

According to the relevant regulations in the PRC, only those aged eighty or above or with terminal illness are eligible to acquire graves before death. As such, the major customers of the cemeteries are the relatives of the deceased, the elderly aged eighty or above and the people with terminal illness while the major customers of the funeral houses are the relatives of the deceased. It is also a common practice for Chinese people to bury the deceased in their home town. Therefore, most of the deceased buried in the cemetery are the local citizens.

Competition

The PRC's funeral industry is enormous but very fragmented and this industry is stringently controlled by the PRC government. Regulatory complexities, significant capital investment as well as zoning restrictions also make it difficult for a new entrant to break into the cemetery and funeral market. Currently, most of the cemeteries in the PRC are operating in relatively small scale and run by state-owned enterprises. They offer similar products and services and compete on pricing but lacking quality of services. This provides opportunities for the well-developed and large-scale cemetery operators, such as the Acquired Assets, to integrate and consolidate in the funeral industry. It is expected that there will be an increasing trend for consolidation in the funeral industry in the PRC and the market will be more competitive in the future following the release of operation to the private capital to cope with the increasing demand of cemeteries and funeral houses from the public.

The major competitors of the Acquired Assets in respect of their cemetery operation are as follows:

Competitors	**Principal place of business**	**Total number of burial vaults sold during 2009**	**Total revenue for the year ended 31 December 2009** *RMB'000*
A	Shanghai	2,800	120,000
B	Shanghai	4,000	130,000
C	Hefei	1,108	25,000
D	Hefei	4,947	8,630
E	Shandong	information not available	15,000

Source: Funeral Management office of Shanghai and market research performed by Shanghai FSY

The major competitors of the Acquired Assets in respect of their funeral house operation are as follows:

Competitors	Nature	Principal place of business	Number of funeral houses	Total revenue for the year ended 31 December 2009 *RMB'000*
F	State-owned enterprise	Chongqing	3	9,000
G	Jointly invested by the State and private sector	Chongqing	3	10,000
H	Privately-owned enterprise	Chongqing	2	9,000
I	Privately -owned enterprise	Chongqing	2	7,500
J	Privately-owned enterprise	Chongqing	1	3,000

Source: market research performed by Shanghai FSY

Pricing policy

The pricing of the cemeteries and funeral services is determined by market demand and supply and generally depends on a number of factors, including the local household income level and consumer index, the location and environment of the cemetery, the quality of the tombstone and services provided.

REGULATIONS ON THE FUNERAL SERVICE INDUSTRY IN THE PRC

The funeral industry of the PRC is mainly coordinated and administered by the Ministry of Civil Affairs of the PRC, while the departments of civil affairs of local People's Governments at or above county level are responsible for funeral and interment control in their respective administrative areas. The Ministry of Civil Affairs and local departments of civil affairs are responsible for monitoring and administration on application for construction of funeral and interment facilities, land use of funeral and interment facilities and basic civil funeral services. The following regulations, rules and regulatory documents are applicable across the PRC.

Regulations on Funeral and Interment Control

The regulations which are of administrative regulations govern the funeral industry of the PRC and were promulgated and implemented by the State Council on 21 July 1997. The department of civil affairs under the State Council is responsible for funeral and interment control throughout the country. The departments of civil affairs of local People's Governments at or above county level are responsible for funeral and interment control in their respective administrative areas. The regulations are applicable to funeral parlours, crematoria, cinerary halls, cemeteries and funeral service stations.

In areas where cremation is practised, People's Governments at county level and People's Governments of municipalities with subordinate districts and autonomous prefectures should work out concrete plans for cremation, and include the new construction and reconstruction of funeral parlours, crematoria and cinerary halls into urban and rural construction plans and capital construction plans. In areas where burials in the ground are permitted, People's Governments at county level and People's Governments of municipalities with subordinate districts and autonomous prefectures should include the construction of cemeteries into urban and rural construction plans. Departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government should set forth the numbers and distribution plans of such facilities as funeral parlours, crematoria, cinerary halls, cemeteries and funeral service stations on the basis of the funeral and interment work plans and service needs of their respective administrative areas and submit the same to People's Governments at the same level for approval.

The following qualifications shall be satisfied for application for construction of funeral and interment facilities:

(i) qualification of the applicant as a legal person;

(ii) the proposed funeral and interment facilities shall be in accordance with local land use overall planning and the urban and rural construction plans;

(iii) the numbers and distribution plans of funeral and interment facilities in local administrative area shall be followed; and

(iv) other qualifications as stipulated by laws, regulations and rules.

The following documents shall be submitted for an application for construction of funeral and interment facilities:

(i) application report for construction of funeral and interment facilities;

(ii) examination opinion of the urban and rural construction administration and land administration authorities;

(iii) feasibility report for construction of funeral and interment facilities;

(iv) in case of construction of funeral and interment facilities with foreign capital, the applicant shall submit the approval by competent commercial authorities in conjunction with the three documents above; and

(v) other documents required by laws, regulations and rules.

No entity or individual shall construct funeral and interment facilities on their own without approval by competent authorities. In case of construction of funeral and interment facilities arbitrarily without approval, the department of civil affairs shall in conjunction with construction administration and land administration authorities effect a ban, direction on restoration to original condition and confiscation of illegal income together with a fine.

In case of construction of funeral parlours, crematoria, cemeteries, cinerary halls and funeral service stations to be jointly funded by foreign capital and local funeral service providers, an application shall be submitted by the applicant to local department of civil affairs at county level, subject to its approval and the approvals by the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government, and then by the department of civil affairs under the State Council.

To build local funeral parlours and crematoria, proposals shall be put forth by the departments of civil affairs of People's Governments at county level and People's Governments of municipalities with subordinate districts and autonomous prefectures, and submitted to People's Governments at the same level for approval.

For construction of funeral service stations and cinerary halls, an application shall be submitted by the applicant to local department of civil affairs at county level, subject to the approvals by the departments of civil affairs of People's Governments at county level and People's Governments of municipalities with subordinate districts and autonomous prefectures. For construction of cemeteries, an application shall be submitted by the applicant to local department of civil affairs at county level, subject to the approvals by the departments of civil affairs of People's Governments at county level and People's Governments of municipalities with subordinate districts and autonomous prefectures, and then by the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government.

To set up non-profit graveyards for villagers in rural areas, proposals shall be submitted by villager committee to People's Governments at town level for examination and permission, subject to approvals by the departments of civil affairs of People's Governments at county level.

The Acquired Assets have obtained all the relevant and necessary approvals, permits, business licenses, certificates and land use rights required for conducting the funeral and cemetery businesses in the PRC and the management of the Acquired Assets expect that there shall be no significant difficulties or legal impediments of renewing such permits or licenses after expiration.

Provisional Methods for Administration on Cemeteries

The provisional methods which are of departmental rules were promulgated and implemented by the Ministry of Civil Affairs on 25 August 1992. The Ministry of Civil Affairs being the authorities governing cemeteries in the country is responsible for developing policies and regulations for cemetery construction and its overall planning as well as providing macro direction. The departments of civil affairs at or above county level are the authorities governing cemeteries in their respective administrative areas, responsible for implementing the State's policies and regulations on cemeteries and providing specific guides for cemetery construction and development in respective administrative areas.

Cemeteries are categorised as non-profitable cemeteries and commercial cemeteries. To build a cemetery, an application shall be submitted to the authorities governing cemeteries. Non-profitable cemeteries are public graveyards providing villagers the burial and interment services of mortal remains and ashes of the dead that are constructed by village committee, for which an application shall be submitted by village committee, subject to the approval by the department of civil affairs at county level. Commercial cemeteries are public graveyards providing townsfolk the paid interment and burial services of ashes of the dead or mortal remains that are constructed by public funeral institutions, for which an application shall be submitted by cemetery undertaker to the department of civil affairs at county level, subject to approvals by People's Governments at the same level, and then by the departments (bureaus) of civil affairs of the provinces, autonomous regions and municipalities directly under the Central Government.

The land use right for cemeteries legally belongs to the State or collectives and shall not be transferred or traded by chief mourner at his discretion. Epigraphs of cemeteries should be small and diversified. Cemetery area should be reasonably planned with proper greenery and decoration towards garden style. Non-profitable cemeteries shall not provide commercial funeral services without prior permission. Grave management fee for commercial cemeteries is charged in one lump for a term up to 20 years. For interment and burial of ashes or mortal remains in commercial cemeteries, chief mourner is required to pay grave rent, construction costs, interment and burial fee and grave maintenance fee.

Notice on Repatriation and Interment of Demised Overseas Chinese

The notice which is of departmental regulatory documents was promulgated and implemented by the Ministry of Civil Affairs and Overseas Chinese Affairs Office of the State Council on 28 May 1984.

In provinces, autonomous regions and municipalities directly under the Central Government with large quantity of overseas Chinese, the departments of civil affairs and overseas Chinese affairs may, according to actual needs and in the principle of no or less occupation of arable land, jointly construct certain "overseas Chinese cemeteries" as the premise for interment of their ashes. The investment required is jointly raised by the departments of overseas Chinese affairs and civil affairs under local infrastructure construction plan, and is recovered from annual operating income. "Overseas Chinese cemeteries" are under joint administration of the departments of civil affairs and overseas Chinese affairs where no commercial activities are permitted, and no entity or individual is allowed to operate them in the PRC with merchants of Hong Kong or Macau or foreign investors. In case of a request of overseas Chinese for repatriation and interment after decease, his/her relatives shall submit the application to the departments of overseas Chinese affairs of provinces, autonomous regions and municipalities directly under the Central Government of his/her original residence. Upon the will of the overseas Chinese or request of the relatives, the departments of overseas Chinese affairs collaborate with the departments of civil affairs to determine the cemetery for interment and relevant issues. Where conditions permit, interment in hometown is allowed.

Notice on Certain Issues in Construction of Sino-foreign Jointly-invested Cemeteries

The notice which is of departmental rules was promulgated and implemented by the Ministry of Civil Affairs on 9 November 1992.

In principle, Sino-foreign jointly-invested cemeteries shall be constructed in hometowns of compatriots from Hong Kong, Macau and Taiwan and overseas Chinese. Save for the aforesaid, ashes of domestic dead can also be buried there where conditions permit. The site selection for Sino-foreign jointly-invested cemeteries is subject to, among others, the approvals by land administration at province level, urban and rural construction and tourism authorities. Interment users and trustable market survey and forecast for grave sale are required to ensure sound economic and social benefits after the Sino-foreign jointly-invested cemeteries commence operation.

Notice on Strict Control over Introduction of Foreign Capital to Construction of Funeral and Interment Facilities

The notice which is of departmental regulatory documents was jointly promulgated and implemented by the Ministry of Civil Affairs, State Planning Commission (replaced by the National Development and Reform Commission) and Ministry of Foreign Trade and Economic Cooperation (replaced by the Ministry of Commerce) on 6 February 1995.

Under the notice, the funeral industry is a special sector where generally foreign capital is not encouraged. However, pursuant to the 2002 Foreign Capital Direction and the 2007 Industry Guideline for Foreign Capital issued by the State Council, overseas investment can be introduced in funeral and interment services, and the funeral industry is excluded from the list of restricted or prohibited businesses. Furthermore, pursuant to the Decision on Revoking or Delegating Administrative Approvals for the 5th Batch of Projects issued by the State Council on 4 July 2010 (Guo Fa 2010 No.21), approvals by the Ministry of Civil Affairs for funeral and interment facilities with foreign capital have been revoked. Therefore, construction of funeral and interment facilities with foreign capital is only subject to examination, verification and approval by the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government.

Notice on Rectification of Illegal Commercial Cemeteries

The notice which is of departmental regulatory documents was promulgated and implemented by the Ministry of Civil Affairs and the Ministry of Land and Resources on 23 March 1995.

Illegal commercial cemeteries are defined as commercial cemeteries without approvals, commercial cemeteries with approvals but without legally getting through land approval procedures and non-profitable cemeteries that sell graves. According to the extent of illegal operations, the treatments include penalty, ban, direction on restoration of topography, returning illegally occupied land, business suspension for rectification and confiscation of illegal income. An annual review and acceptance system should be gradually established after commercial cemeteries commencing operation, administered mainly by the funeral and interment authorities and managed by relevant departments and social organisations.

Notice of the Ministry of Civil Affairs on Prohibition of Improper Marketing Activities through Cinerarium Facilities

As cinerarium facilities are different from normal commodities, purchase and use procedures shall be followed according to the death evidence provided. No pre-sale, pyramid sale or speculative activities, or private transfer or sale by the buyer are allowed for cemeteries. In principle, no remote office or sale outlet is allowed for cemeteries.

Shanghai Municipal Regulations on Funeral and Interment Control

The regulations which are of local regulations were promulgated by the Standing Committee of Shanghai Municipal People's Congress on 20 August 1997, with effect from 1 January 1998.

Funeral and interment service providers shall be established in accordance with the planning of this Municipality for funeral and interment and the principles of rationality, necessity and convenience for people. Construction of funeral parlours (including crematoria, similarly hereinafter), cemeteries and cinerary halls shall be included in the urban and rural construction planning.

To build a funeral parlour, the Municipal Bureau of Civil Affairs shall submit an application to the Municipal People's Government for approval. To build a cemetery, an application shall be submitted to the Municipal Bureau of Civil Affairs for approval. To build a cinerary hall or funeral and interment service agency, or for a funeral parlour, cemetery or cinerary hall to set up a funeral and interment service office outside of its service locality, an application shall be submitted to the Municipal Office for Funeral and Interment for approval. Construction of funeral parlours, cemeteries or cinerary halls with foreign capital shall follow relevant regulations of the State. Entities or individuals other than funeral parlours shall not engage in funeral and interment services such as transportation, preservation, beautification or changing clothes for the dead.

Anhui Provincial Administrative Methods on Funeral and Interment Control

The administrative methods which are of local rules were promulgated and implemented by Anhui Provincial People's Government on 25 February 1994, and revised on 19 December 1997.

Funeral parlours and commercial cemeteries shall be constructed by the departments of civil affairs at municipality or county level under the general planning of People's Governments at municipality or county level, subject to the approval by the Provincial Bureau of Civil Affairs. Non-profitable cemeteries shall be constructed by towns or villages under the general planning of People's Governments at town level, subject to approvals by the departments of civil affairs at county (municipality, district) level. Costs for construction of funeral parlours are budgeted in the fundamental construction plans of the municipality and county. Funeral and interment undertakers shall follow relevant requirements on funeral and interment control to provide convenience to the public with an aim to improve service awareness and quality.

Hefei Municipal Administrative Methods on Funeral and Interment Control

The administrative methods which are of local rules were promulgated by Hefei Municipal People's Government, Anhui Province on 8 May 2002, with effect from 15 June 2002.

Funeral and interment facilities shall be established in accordance with local service needs and the principles of convenience and benefit for people under the planning for funeral and interment facilities. New construction and reconstruction of funeral and interment facilities including funeral parlours, cemeteries, cinerary halls (tower, wall) and funeral service stations shall be included in the urban and rural construction planning. Relocation of for funeral and interment facilities due to construction requirement is subject to relevant regulations.

To build a funeral parlour or crematorium, proposals shall be put forth by the departments of civil affairs at municipality or county level, subject to approvals by People's Governments at the same level. To build a funeral service station or cinerary hall, an application shall be submitted to the departments of civil affairs at municipality or county level for approval. To build a cemetery, an application shall be submitted to the departments of civil affairs at municipality or county level for examination and permission, subject to the approval by the provincial department of civil affairs. To build funeral and interment facilities with foreign capital, an application shall be submitted to the provincial People's Government for examination and permission, subject to the approval by the department of civil affairs under the State Council.

Construction of funeral and interment facilities shall follow the legal procedures for land use, construction and others. No entity or individual shall construct funeral and interment facilities on their own without approval.

Sichuan Regulations on Funeral and Interment Control

The regulations which are of local regulations were promulgated by the Standing Committee of Sichuan Provincial People's Congress in 1996, and revised in 1997 and 2004.

Transportation, preservation, beautification, refrigeration and cremation of mortal remains shall be undertaken by funeral parlours, crematoria and funeral service centres, and no other entity or individual shall engage in provision of commercial funeral services. Funeral parlours, crematoria, funeral service centres and public cemeteries, being social facilities, are public institutions of funeral and interment activities which are established and managed by bureaus of civil affairs of county, town or local governments according to service needs in their respective administrative areas.

To build a funeral parlour or crematorium, proposals shall be put forth by People's Governments at county level and prefecture bureaus of civil affairs under the planning of the Provincial Bureau of Civil Affairs, subject to approvals by prefecture People's Governments. To build a funeral service centre or cinerary hall, proposals shall be made under the planning of the Provincial Bureau of Civil Affairs, subject to approvals by People's Governments at county level and prefecture bureaus of civil affairs. To build a cemetery, an application shall be submitted to the bureaus of civil affairs of People's Governments at county and town level for examination and permission, subject to final approval by the bureaus of civil affairs at county level.

Funeral parlours, crematoria, funeral service centres and public cemeteries shall seek no profit and follow relevant guidelines and regulations of the State and Sichuan province in terms of the list and rates of paid products and services.

Chongqing Municipal Regulations on Funeral and Interment Control and Chongqing Municipal Administrative Methods on Funeral and Interment Activities

Chongqing Municipal Regulations on Funeral and Interment Control which are of local regulations were promulgated by the Standing Committee of Chongqing Municipal People's Congress on 29 May 1998, with effect from 1 September 1998. Chongqing Municipal Administrative Methods on Funeral and Interment Activities which are of local rules were promulgated by Chongqing Municipal Government on 13 June 2002, with effect from 1 August 2002.

To build a funeral parlour, pubic cemetery or cinerary hall, an application shall be submitted to the Bureau of Civil Affairs of the Municipal Government for approval. To build a funeral service centre, an application shall be submitted to the departments of civil affairs of the governments of local districts and counties. To set up non-profit graveyards and cinerary halls for villagers in rural areas, an application shall be submitted to the bureaus of civil affairs of People's Governments at town level for examination and permission, subject to approvals by the bureaus of civil affairs of People's Governments at district and county level.

No entity or individual shall construct funeral and interment facilities on their own without approval by competent authorities. Entities or individuals other than funeral parlours and funeral service centres shall not engage in transportation, preservation, beautification, refrigeration and cremation activities of mortal remains. Necessary technical treatment shall be carried out in the transportation of mortal remains to ensure hygiene and prevent pollution of environment. In case of the remains of persons who died of infectious diseases, treatment shall be carried out pursuant to the Law of the People's Republic of China on Prevention and Control of Infectious Diseases. Mortuary equipment including but not limited to cremators, hearses and corpse refrigerators shall meet the technical standards set by the State. Manufacturing or sale of mortuary equipment that does meet the technical standards set by the State is prohibited. No entity or individual shall engage in funeral and interment activities beyond the prescribed venues. A service license shall be obtained before building a funeral parlour or pubic cemetery, subject to the approval by the Bureau of Civil Affairs of Chongqing Municipal Government on provision of such services.

Shandong Provincial Regulations on Funeral and Interment Control

The regulations which are of local rules were promulgated by Shandong Provincial People's Government 19 January 1999, with effect from 1 February 1999.

Proposals for construction of funeral parlours shall be put forth by the departments of civil affairs of People's Governments at county level and People's Governments of municipalities with subordinate districts in conjunction with administrative authorities of construction, and submitted to the People's Governments at the same level for approval.

To build funeral service stations at towns or set up non-profit graveyards (including cinerary halls, same hereinafter) for villagers in rural areas, an application shall be submitted to People's Governments at town level for examination and permission, subject to approvals by the departments of civil affairs of People's Governments at county level. To construct or expand cemeteries (including pagoda cemeteries, same hereinafter) or relocate funeral parlours, an application shall be submitted to the departments of civil affairs of People's Governments at county level and People's Governments of municipalities with subordinate districts for examination and permission, subject to the approval by the provincial department of civil affairs.

Save for the deep burial as required by public security organs for handling criminal cases and subject to the approval by provincial public security organs, no entity or individual is allowed to bury mortal remains. Cemetery undertaker shall establish sound management system, and properly construct and maintain cemeteries. Cemeteries shall be kept orderly and solemn, with reasonable grave plan and garden-style environment.

Jinan Municipal Administrative Methods on Funeral and Interment Control

The administrative methods which are of local rules were promulgated and implemented by Jinan Municipal People's Government, Shandong Province on 21 September 1999, and revised on 20 February 2006.

Jinan Municipal Bureau of Civil Affairs is the administrative authorities for the municipal funeral and interment control. The Municipal Office for Funeral and Interment is responsible for funeral and interment control of the city, as appointed by the municipal department of civil affairs. The departments of civil affairs at county (municipality, district) level are responsible for funeral and interment control within their respective administrative areas.

To build a cemetery, an application shall be submitted to the municipal department of civil affairs for examination, subject to the approval by provincial department of civil affairs. To build a funeral parlour or crematorium, an application shall be submitted to the municipal department of civil affairs for examination, subject to the approval by the Municipal People's Government. To build cinerary hall or funeral service station, an application shall be submitted to People's Governments at town level for examination and permission, subject to approvals by the departments of civil affairs of the governing county (municipality, district). To set up non-profit graveyard for villagers in rural areas, an application shall be submitted to People's Governments at town level for examination and permission, subject to approvals by the departments of civil affairs of People's Governments at county level. No entity or individual shall construct funeral and interment facilities on their own without approval.

Henan Provincial Administrative Methods on Funeral and Interment Control

The administrative methods which are of local regulations were promulgated by the Standing Committee of Henan Provincial People's Congress on 30 July 1997 with effect from 1 December 1999, and revised on 26 November 2004.

The provincial department of civil affairs should set forth the numbers and distribution plans of such facilities as funeral parlours, crematoria, cinerary halls, cemeteries and funeral service stations on the basis of the funeral and interment work plans and service needs of the province, and submit the same to the Provincial People's Government for approval. People's Governments at municipality and county (county-level city) level should include the new construction and reconstruction of such funeral and interment facilities as funeral parlours, crematoria and cinerary halls into urban and rural construction plans and capital construction plans. New funeral parlours shall be planned, designed and constructed according to the classes and standards provided by the State.

To set up non-profit graveyard for villagers in rural areas, an application shall be submitted to People's Governments at town level for examination and permission, subject to approvals by the departments of civil affairs at county (municipality, district) level. To build a funeral parlour or crematorium, proposals shall be put forth by the departments of civil affairs at municipality or county (county-level city) level, subject to approvals by People's Governments at the same level and filed with the provincial department of civil affairs. To build a funeral service station or cinerary hall, an application shall be submitted to the departments of civil affairs at municipality or county (county-level city) level for approval. To newly construct or expand cemeteries (including pagoda cemeteries, same hereinafter), an application shall be submitted to the departments of civil affairs at county or above level and People's Governments at the same level for examination and permission, subject to the approval by the provincial department of civil affairs. To build funeral and interment facilities with foreign capital, an application shall be submitted to the provincial department of civil affairs for examination and permission, subject to the approval by the department of civil affairs under the State Council.

Zhengzhou Municipal Regulations on Funeral and Interment Control

The regulations which are of local regulations were promulgated by the Standing Committee of Zhengzhou Municipal People's Congress on 15 December 2003, with effect from 1 January 2004.

To build funeral parlours, proposals shall be put forth by the departments of civil affairs at municipality or county (county-level city) level, subject to approvals by People's Governments at the same level and filed with the provincial department of civil affairs. To build a funeral service station or cinerary hall, an application shall be submitted to the departments of civil affairs at municipality or county (county-level city) level for approval. To newly construct or expand commercial cemeteries, an application shall be submitted to People's Governments at county (county-level city) and district level and the municipal department of civil affairs for examination and permission, subject to the approval by the provincial department of civil affairs. Construction of funeral and interment facilities with foreign capital is subject to submission for approval under relevant regulations of the State. Construction and management of commercial cemeteries shall follow relevant regulations of the State, province and municipality.

Proposed revisions to major regulations

On 14 May 2007, Regulations on Funeral and Interment Control (proposed revisions and consultation draft) ("Consultation Draft") was issued by the State Council of the PRC ("State Council"). According to the PRC legal adviser to the Acquired Assets, as the date hereof, the State Council has not been officially promulgated and thus is not included in laws and regulations. The PRC legal adviser of the Acquired Assets cannot estimate the official promulgation date of the Consultation Draft (as revised).

According to the Consultation Draft (as revised), in order to strengthen funeral and interment control, promote funeral reform, protect legitimate interest of citizens, legal persons and other organisations and safeguard public interest, the existing regulations need to be revised and improved as follows:

(i) Administration on funeral services. Firstly, it is expressly specified that transportation, refrigeration and cremation services for mortal remains shall be provided by funeral parlours, which shall be established under planning and approval and registered as a public institution and shall conduct its activities under the operating mode of public institutions. (Article 8) Secondly, it is expressly specified that the fees for transportation, refrigeration and cremation services provided by funeral parlours for mortal remains shall be charged pursuant to the rates prescribed by the State. The administrative methods on charges shall be on the non-profitable basis and determined by price authorities in conjunction with the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government. (Article 14) Thirdly, it is expressly specified that commercial funeral service providers qualified for enterprise registration may conduct funeral service activities other than transportation, refrigeration and cremation services for mortal remainsial registration. (Article 15) In addition, it also sets out certain normative requirements on transportation, refrigeration and cremation of mortal remains and other procedures.

(ii) Administration on cemeteries. Firstly, administrative authorisation conditions and procedures for construction of cemeteries are specified. Set out below are Article 19 and Article 20:

Article 19 The following qualifications shall be satisfied for application for construction of cemeteries:

(a) qualification as a legal person;

(b) organisation and staff that are dedicated in operation of cemeteries;

(c) in accordance with the planning scheme for construction of cemeteries;

(d) land available for construction of cemeteries;

(e) capital amounting to 50% or above of the total investment of cemetery construction; and

(f) cinerarium facilities should represent a large percentage in areas where cremation is practised.

Article 20 To apply for construction of cemeteries, application, feasibility study report and relevant evidences to the qualifications required by Article 19 herein shall be submitted to the departments of civil affairs of People's Governments of municipalities with subordinate districts. The responsible departments shall complete examination within 20 days following accepting the application, and then submit initial examination opinion and all application materials to the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government. The departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government shall complete examination within 20 days following accepting the application, and grant licenses to qualified applicants. For unqualified applicants, reasons shall be provided in written. Cemeteries shall pass acceptance inspection, after completion, by the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government. Operators of accepted cemeteries shall conduct business activities upon completion of industrial and commercial registration under the laws. In case of changes in authorised activities, applications shall be submitted by operators of cemeteries.

Secondly, operators of cemeteries shall provide grave land or cells for storage of ashes only under death certificates presented, and shall not provide the same without presence of relative death certificates. (Article 21) Users of grave land or cells for storage of ashes shall not transfer or sublease the same to other parties. (Article 24) Thirdly, rates charged for cemeteries are specified. (Article 23)

(iii) Administration on funeral activities. Firstly, funeral activities shall follow laws, regulations and public administrative requirements, shall not occupy public space such as urban streets and plaza for depositing mortal remains and setting funeral shed, and shall not obstruct public order, jeopardise public hygiene and damage legitimate interest of other parties. (Article 27) Secondly, open fire are not allowed in outdoor funeral and memorial activities. At funeral and memorial venues which allow open fire at designated sites, open fire are prohibited beyond the designated sites. Managers of funeral and memorial venues should excise strict control on open fire to prevent fire hazards. (Article 29) In addition, provisions on legal liabilities are supplemented in the Consultation Draft.

After reviewing the Consultation Draft and following the due diligence on businesses of the Acquired Assets, the PRC legal adviser of the Acquired Assets are of opinion that given the following reasons, the Consultation Draft, if promulgated in a form of regulations, will not have any material adverse impact on businesses and operations of the Acquired Assets in the PRC:

(a) Save for funeral parlours, there are no statutory requirements under which funeral service centres shall be registered as public institutions or taken as "non-profitable public institutions involving pubic interests". Anle Hall and Anle Funeral Services, being funeral service providers instead of public institutions, can operate commercial funeral services other than transportation and refrigeration of mortal remains. As Anle Hall and Anle Funeral Services are not funeral parlours, they are not required to follow the "non-profitable" principle set out in the Consultation Draft.

(b) Pursuant to the existing regulations and rules of Sichuan province and Changing city and the current price policies of county-level pricing authorities of Chongqing, the Acquired Assets shall observe the price list of China. No restrictions on business scope and market charges regarding non-basic services of the Acquired Assets are provided in existing regulations and rules of the PRC.

(c) The Acquired Assets may provide examples or definitions of special or value-added services (excluding basic services) subject to market prices and the Acquired Assets can determine the price policies for special or value-added services according to market demands.

Environmental protection and hygiene standards

According to regulations, rules and regulatory documents, funeral service providers shall improve management on funeral service facilities including the maintenance of all funeral and interment facilities under national standards. Before transportation, mortal remains are required to be technically treated for the purpose of hygiene and environmental protection. Similarly, incinerators and refrigerators for mortal remains shall be replaced and renovated to meet technical requirements of the State. Manufacturing or sale of any non-standard mortuary facilities is prohibited.

Environmental regulations on construction projects

Construction of funeral and interment and relevant facilities shall follow the Regulations on the Administration of Construction Project Environmental Protection promulgated by the State Council on 29 November 1998. The regulations require that an appraisal mechanism on environmental impact shall be implemented to appraise the impact of buildings on environment, and environmental facilities shall be constructed, installed and operated when constructing funeral and relevant facilities. Sewage treatment for crematoria, autopsy rooms and incinerators shall follow the sewage discharge (GBJ48) standards for hospitals published in 1983 by the Ministry of Health of the People's Republic of China. The GBJ48 standard requires that (i) centralised sewage treatment facilities shall be constructed to manage sewage treatment; (ii) infiltration wells and pits are prohibited to treat sewage; and (iii) only sterilised sewage can be discharged.

In addition, no individual or entity shall illegally dump solid waste to rivers, lakes, canals, riverbeds, pools or coastal beaches or shores that are below the highest horizontal line.

For the purpose of solid waste in providing funeral services, there is no specific rule or regulation governing the disposal. Pursuant to laws governing air pollution in China, no waste gas shall exceed national and local gas emission standards. The waste gas emission standard of China is Combined Waste Gas Emission Standard (GB 16297-1996).

On 1 April 2003, the Virus Safety Thresholds for Funeral Parlours are published by the General Administration of Quality Supervision, Inspection and Quarantine of China to monitor virus safety thresholds, which set out hygiene requirements and methods designed to cautiously monitor and inspect funeral parlours, incinerators, cinerary hall, cemeteries and funeral service centres. Under the Treatment and Sterilisation Guidelines promulgated by the Ministry of Health of China with effect from 1 July 2007, all funeral parlours, incinerators, places and vehicles for deposit of mortal remains are required to be sterilised on a regular basis.

On 10 April 2000, the Minimum Distance Requirement on Incinerators (GB 18081-2000) was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of China, to safeguard public safety by establishing the minimum distance from incinerators to residential area. For construction of any funeral and interment facilities with potential environmental pollution, the Regulations on the Administration of Construction Project Environmental Protection promulgated by the State Council on 29 November 1998 shall be followed. An appraisal mechanism on environmental impact shall be implemented to ensure environmental facilities being installed.

Sewage from depository of mortal remains and incinerators are treated under the sewage discharge standards for hospitals published in 1983 by the Ministry of China in order to prevent spread of infectious diseases and environmental pollution.

Administrative Methods on Food Hygiene Licensing

Pursuant to the Administrative Methods on Food Hygiene Licensing with effect from 1 June 2006, any owner of entity or individual engaging in food production and operation shall declare to hygiene authorities and complete the procedures for food hygiene licensing. Entities and individuals shall conduct food production activities conditional upon the granting of food hygiene license by competent authorities after inspection. Owners of the members of group company shall obtain respective food hygiene licenses for providing catering services in their respective cafeteria. Employees working in cafeteria shall obtain health certificates from competent authorities. Owners of funeral parlours and funeral service centres have the right to require that employees in food production and operation obtain health certificates.

Regulations on manufacturing and sale of funeral and interment equipment and corpse treatment

Under the regulations on funeral and interment control in China, relevant governmental bodies can award orders to suspend the manufacturing and sale of funeral and interment equipment which cannot meet relevant standards of China. In addition, relevant governmental bodies can impose a fine of one to three times the amount of unlawful gains therefrom.

Other relevant rules

Immigration control and treatment of corpse are governed by the Regulations on Immigration Control and Treatment of Corpse promulgated by the Ministry of Hygiene of China on 1 August 2006, which set out:

(i) Trade of corpse and corpse-related commercial activities are prohibited; and

(ii) For any entry and exit of corpse for funeral and interment or medical science purpose, an application shall be submitted to the bureau of civil affairs, the Customs and the entry-exit inspection and quarantine department of China. No corpse shall be permitted for entry or exit in case of failure to produce relevant certificates such as antiseptic certificate, interment certificate and entry-exit application.

Notice on Construction Standards for Construction and Design of Funeral Parlours

The Notice on Construction Standards for Construction and Design of Funeral Parlours was jointly promulgated by the Ministry of Construction and the Ministry of Civil Affairs of China on 28 October 1999, which specifies the detailed industrial standard requirements on site selection, layout design, construction design and fireproofing design. Addressing economy and suitability, the notice also stresses the requirements on environmental protection, hygiene, lighting and air ventilation.

RISK FACTORS

Downturns in the economy

Given the businesses of the Acquired Assets are operated in several provinces and municipalities in the PRC, the revenue of the Acquired Assets is dependent on the economic conditions of the PRC and the customers' spending for funeral services in those provinces and municipalities of the PRC. If consumers' demand for the Acquired Assets' funeral services is reduced by a significant extent in any province where the businesses of the Acquired Assets are operated and the Acquired Assets are unable to expand its business to new territories, the revenue, profitability and business prospects of the Acquired Assets will be adversely affected.

Changes in the economic, political, taxation and regulatory environment in the PRC

In the past two decades, the PRC government implemented economic reform measures in developing the PRC economy. As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the business environment of the PRC remains to be subject to the policies, directions and regulatory control measures of the PRC government. As a matter of national policy, the PRC government has, from time to time and as it deems appropriate, called for effective measures in macro-economic control in order to ensure steady and sustainable national economic growth. Whereas the Acquired Assets' ability to successfully expand its business operations in the PRC depends on the economic conditions and business environment of the PRC, there is no assurance that the policy of the PRC government to impose macro-economic control measures, from time to time as it deems fit, would not adversely affect, directly or indirectly, the business operations of the

Acquired Assets. The macro-economic measures may have a transitional adverse impact on the general economic environment in the PRC, which may in turn have an adverse effect on the Acquired Assets' operating results in the short or long term. Furthermore, there may be new regulations or policies, or adjustments on previously implemented regulations which may limit the Acquired Assets' ability to operate or require the Acquired Assets to change their business plan or increase their costs and tax payable. All of these could adversely affect the business and operating results of the Acquired Assets. The Acquired Assets cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on the current or future business, operating results or financial condition of the Acquired Assets.

Regulatory control

The cemetery operation business operated by the Acquired Assets is regulated by various legislations and regulatory authorities in the PRC. The Acquired Assets are required to obtain the relevant licenses for the operation of cemeteries in the PRC. As such, the Acquired Assets have to ensure continuous compliance with all the applicable laws, regulations and codes in the PRC to avoid any fines or any form of sanctions. In addition, in the course of providing funeral services, the Acquired Assets have to ensure the employees being in compliance with all the applicable laws, rules and regulations when providing such services. Any change to or tightening of the relevant laws, rules and regulations and failure to comply with the relevant laws and regulations of funeral service industry may adversely affect the Acquired Assets' operations, business and profitability.

Pursuant to the regulations on funeral and interment control promulgated and implemented by the State Council on 21 July 1997 and the Decision on Revoking or Delegating Administrative Approvals for the 5th Batch of Projects issued by the State Council on 4 July 2010 (Guo Fa 2010 No.21), construction of funeral and interment facilities with foreign capital is subject to examination, verification and approval by the departments of civil affairs of People's Governments of provinces, autonomous regions and municipalities directly under the Central Government. As at the Latest Practicable Date, the Reorganization has not been completed and thus the approval has not been obtained yet. Although the Company expects that there are no significant difficulties or legal impediments of obtaining such approval, the operation and business of the Acquired Assets may be disrupted in the event that such approval cannot be obtained by the Acquired Assets on a timely basis. Despite the above, the Directors consider that the Company is adequately protected from the risk of not having the approval of foreign capital from the government authorities as completion of the Acquisition is subject to conditions precedent of, inter alia, the formation of the Target, the JV and the WFOE (if applicable) with proper consents, approvals, and/or acts by government authorities for the JV and the WFOE to make investments in funeral services industry under the PRC laws and regulations.

According to the Regulations on Managing Funeral and Interment Industry of the PRC, in the event of failure to fulfill the relevant standards in the PRC, the relevant governmental authorities may order to cease the manufacturing and sale of funeral and interment products. Moreover, the relevant governmental authorities have the power to order a penalty in the amount of one to three folds of the unlawful gain from manufacturing and selling of the substandard funeral and interment products.

Price control

Pursuant to the PRC Price Law, which took effect on 1 May 1998, prices of goods and services shall be determined by the following three mechanisms: (i) market pricing (pricing to be determined by the market force); (ii) government guided pricing (pricing to be set by the company and approved by the local pricing administration); or (iii) fixed pricing (pricing to be fixed by the government). The PRC government has the power to enforce government guided pricing and fixed pricing on goods and services when the government considers it necessary to protect the interests of the society.

Currently, the products and services provided by the Acquired Assets are subject to market pricing. The Acquired Assets can determine the prices of their products and services based on market forces. However, there is no guarantee that the products and services of the Acquired Assets shall not be subject to government guided pricing or fixed pricing in the future. Any change in pricing policy for funeral products and services prescribed by the PRC Government may have an adverse effect on the Group's current or future business, financial condition and results of operations.

Environmental regulations

The Acquired Assets' operations are subject to the increasingly stringent laws and regulations related to environmental protection, including laws and regulations governing gas emissions, waste water discharge, waste management and disposal, storage and handling, and workplace safety. Failure to comply with such laws and regulations could result in the assessment of substantial administrative, civil and criminal penalties, the imposition of investigatory and remedial obligations, and the issuance of injunctions restricting or prohibiting the Acquired Assets' business operations. Moreover, it is possible that the implementation of more stringent environmental laws and regulations, or regulatory interpretations of these laws and regulations could result in additional costs and/or liabilities which are currently non-assessable by the Acquired Assets, such as the requirements to purchase pollution control equipment or implement operational changes or improvements.

The PRC legal system

The PRC legal system is based on written statutes and the legal interpretations by the Standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Although the PRC government has been developing a comprehensive system of commercial laws since 1979, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, these laws and regulations are, however, relatively new. Given the limited volume of published cases and their non-binding nature, interpretation and enforcement of the laws and regulations in the PRC involve uncertainties and the Group's legal rights may not be adequately protected.

Withholding tax on dividend income received from PRC subsidiaries

Under the PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, the PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the

PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their sources within the PRC.

If the Group is required under the PRC Enterprise Income Tax Law to withhold the PRC income tax on dividend income received from the PRC subsidiaries, the profitability of the Group and the value of the Shares may be materially and adversely affected.

Currency fluctuations and exchange control

The exchange rate of RMB has been determined based on market demand and supply with reference to a basket of currencies and their weightings since July 2005. Although there was a remarkable appreciation in RMB in the past few years, great pressure on RMB appreciation from the trading partners of China still exists. As the exchange rate of RMB is allowed to move in a managed way, there is no assurance that the exchange rate of RMB will remain stable in the future or that any measure will not be introduced to address the concerns of China's trading partners. Since a substantial amount of the income and profit of the Acquired Assets are denominated in RMB, any fluctuation in the value of RMB may affect the value of dividends, if any, payable on the Shares in Hong Kong dollars.

Competition of the funeral service industry in the PRC

In the PRC, the funeral services industry is fragmented and the Acquired Assets are well-established funeral service providers. To continue to compete successfully, the Acquired Assets have to provide and maintain good quality funeral services. Besides, the Acquired Assets must be able to promote and market themselves as being distinguishable and different from their competitors continuously. If the Acquired Assets are unable to compete effectively in the future, their financial condition, operating results and cash flows could be adversely affected.

Property ownership

According to the specialized laws and regulations on land for cemetery and funerals (including Property Law, the Land Administration Law and Funeral Management Ordinance) currently in effect in China, land belongs to the State or collective owners. The land use right of cemetery land belongs to the cemetery operator who has legally obtained the land use right through the process of land transfer.

Sales contract of grave does not involve transfer of land use rights. In essence, it is a service contract entered into between the cemetery operator and relatives of the deceased, pursuant to which, the relatives of the deceased agree to pay a fee to get the service of ashes burial and other services. When the contracting party fails to pay in accordance with the sales contract or renew the contract after the expiration of the contract term, the cemetery operator can treat the grave as unidentified and retake it.

According to the provisions of property law, land is a real estate in its nature. Transfer of land use rights has to be registered in the relevant departments. Any unregistered transfer shall not constitute an effective transfer of rights of the assets. The current real estate registration system does not include sale of grave. Therefore, the cemetery operator is entitled to the land use rights of the cemetery and it does not involve transfer of land use right in its operations.

In the event that there is any change on the relevant rules and regulations, the operations of the Acquired Assets may be adversely affected.

The Acquired Assets do not currently possess relevant title certificates and/or land use right certificates of certain lands and buildings occupied by the Acquired Assets. Therefore, there may be uncertainties on the legal rights of the Acquired Assets on such properties. Furthermore, part of the lands of the cemeteries operated by the Acquired Assets are leased, but not owned, by the Acquired Assets. In the event that the leasing of such lands is terminated, the Group's business will be disrupted and the business prospect of the Group may be materially affected.

Limitation on land for development of cemeteries

Construction of cemeteries is stringently regulated and controlled by the PRC government and it requires considerable efforts and resources to obtain government approval for developing a land for cemetery purposes. There is no assurance that the Acquired Assets can acquire additional lands for cemetery development. In such event, the Group's growth potential may be materially affected.

Uncertainty of public acceptance of the Acquired Assets' funeral services in certain provinces of the PRC

The Acquired Assets' provision of funeral service and growth of business depend on the acceptance by the general public of the kind of funeral services provided by the Acquired Assets. Although the Acquired Assets and their management and marketing personnel have extensive and successful experiences and proven track records in providing and marketing funeral services in Shanghai, the operating history of the Acquired Assets in other provinces of the PRC is relatively short. In the event that the general public in other provinces does not accept, and satisfy with, the funeral services provided by the Acquired Assets as those in Shanghai, the Acquired Assets may be unable to generate sufficient revenue to meet its operating expenditure and there is no assurance that the Acquired Assets will be able to generate profits, cash flows and distribute dividends in the future.

Uncertainties associated with the expansion of the Acquired Assets' business

In order to further develop their business, the Acquired Assets intend to adopt a business strategy of increasing the market share in existing markets while expanding into new markets. The successful implementation of the Acquired Assets' expansion strategy may be influenced by numerous factors, such as the ability to identify suitable business opportunities, the obtaining of governmental and other third-party consents, permits and licences that are required to operate such extended businesses, the ability to utilize the Acquired Assets' management and financial resources efficiently and the hiring, training and retention of skilled personnel. There is no assurance that the operational performance of the Acquired Assets will work according to the plans of the Acquired Assets and would meet their expectations, or that they would be able to successfully implement the business strategy and model which the Acquired Assets have employed to date. If the Acquired Assets are unable to find any suitable opportunity for business expansion, their overall operational and financial results could be materially and adversely affected.

The success and rate of expansion of the funeral services provided by the Acquired Assets are also dependent on customers' satisfaction and the marketing efforts of the Acquired Assets. Demand of the funeral services of the Acquired Assets by customers and the Acquired Assets' expansion prospects depend on the growth and penetration rate of the Acquired Assets' business in the provision of funeral services in the PRC market. In order to bring about and maintain growth in the Acquired Assets' business, it may be necessary for the Acquired Assets to implement a series of marketing initiatives to create public awareness and acceptance of the funeral services of the Acquired Assets, while at the same time ensuring customers' satisfaction. In the event that any of the marketing initiatives are met with unsatisfactory response, or that the standard of their service declines and their customers no longer patronize the Acquired Assets, the business and profits of the Acquired Assets will be adversely affected.

New business segment for the Group

The Acquisition constitutes an investment in a new business sector for the Group. The new business, coupled with the regulatory environment in the PRC, may pose significant challenges to the Company, including but not limited to the administrative, financial and operational aspects. Since the Company does not have significant experience in the new business, it is difficult to ascertain the timing and amount of any return or benefits that may be received from the new business. If the proposed business plan in which the Company attempts to develop does not progress as planned, the Company may not recover the funds and resources it has spent, and this may adversely affect the Company's financial position.

Loss or inability to retain key management personnel

The continuous success of the Acquired Assets is dependent, to a large extent, on their ability to retain experienced and qualified management personnel and employees who have the requisite industrial expertise. The members of senior management of the Acquired Assets, relevant experiences of whom are set out in the paragraph headed "Senior Management of the Acquired Assets" in this circular, are responsible for formulating and implementing the business strategies, marketing and corporate development and overseeing business operations. They have been instrumental to the Acquired Assets' development, growth and expansion and are expected to continue to play an important role in the continuing development and growth of the Acquired Assets. They have the requisite experience and expertise in the industry that the Acquired Assets operate in and have established relationships with their customers and suppliers. Therefore, the loss of a significant number of the senior management of the Acquired Assets without suitable and timely replacements may adversely affect the operation of the Acquired Assets' business. In addition, failure to recruit skilled personnel and to retain key staff may adversely affect the operations and expansion plans of the Acquired Assets. Furthermore, any material increases in the key employee turnover rates of the Acquired Assets could have a material adverse effect on the Acquired Assets' business operations, financial condition, operating results or cash flow. Competition for retaining qualified employees might require the Acquired Assets to pay higher wages to attract and retain sufficient employees, which could result in higher labour costs and lower profits.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of B-to-C consumer services, procurement of B-to-B healthcare services and sales of medical devices and consumable.

The Directors consider that the Acquisition shall enable the Group to diversify its business into the funeral services industry in the PRC. Given the growing trend of unprecedented urbanization, aging population and escalating mortality and the continuously rapid economic growth in the PRC, the Directors believe that the demand for high quality funeral services in the PRC is increasing and the growth potential of funeral industry in the PRC is immense. Furthermore, in view of the industry leadership status, the strong financial performance, the high growth potential and prospects of the Acquired Assets, the Directors anticipate that the Acquisition shall significantly broaden the income source of the Group and provide a solution to the Group's insolvency problem and substantially improve the financial position of the Group.

Having considered (i) the abovementioned benefits to be brought by the Acquisition; (ii) the current financial position of the Group; (iii) the valuation of the Acquired Assets being not less than the total consideration of the Acquisition; and (iv) over 98% of the consideration of the Acquisition being settled by the issue of Convertible Notes, the Directors believe that the terms of the Agreement, including the consideration of the Acquisition, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company as at the Latest Practicable Date and, for illustrative purposes only, (i) upon full conversion of the Convertible Notes; (ii) upon conversion of the Convertible Notes, subject to the conversion restrictions; and (iii) upon conversion of the Convertible Notes, subject to the conversion restrictions, and full conversion of the existing convertible securities of the Company, each prepared on the basis that there would be no change in the issued share capital of the Company after the Latest Practicable Date other than as stated in each scenario.

	As at the Latest Practicable Date		**Upon full conversion of the Convertible Notes** *(Note 7)*		**Upon conversion of the Convertible Notes subject to the conversion restrictions** *(Note 5)*		**Upon conversion of the Convertible Notes, subject to the conversion restrictions** *(Note 5)*, **and full conversion of the existing convertible securities of the Company** *(Note 6)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Dr. Li Zhong Yuan and his associates	24,443,000 *(Note 1)*	5.97	24,443,000	0.28	24,443,000	4.18	30,687,000	2.42
Mr. Martin Treffer and his associates	1,545,000 *(Note 2)*	0.38	1,545,000	0.02	1,545,000	0.27	3,447,000	0.27
Mr. Zhou Bao Yi *(Note 3)*	1,002,000	0.24	1,002,000	0.01	1,002,000	0.17	1,002,000	0.08
Mr. Mu Xiangming *(Note 3)*	261,000	0.06	261,000	0.00	261,000	0.04	471,000	0.04
Dr. Yan Shi Yun *(Note 3)*	261,000	0.06	261,000	0.00	261,000	0.04	261,000	0.02
Mr. Jiang Bo *(Note 3)*	261,000	0.06	261,000	0.00	261,000	0.04	261,000	0.02
Dragonrise Capital Advisors Inc.	62,480,474	15.27	62,480,474	0.72	62,480,474	10.69	62,480,474	4.93
Capital Foresight Limited *(Note 4)*	–	–	–	–	–	–	364,687,500	28.75
The Procurer	–	–	8,290,000,000	95.30	175,433,127	29.99	380,350,891	29.99
Other public Shareholders	319,285,480	77.96	319,285,480	3.67	319,285,480	54.58	424,611,192	33.48
Total	409,538,954	100.00	8,699,538,954	100.00	584,972,081	100.00	1,268,259,057	100.00
Non-public Shareholders	90,253,474	22.04	8,317,773,000	95.61	265,686,601	45.42	781,167,391	61.59
Public Shareholders	319,285,480	77.96	381,765,954	4.39	319,285,480	54.58	487,091,666	38.41
	409,538,954	100.00	8,699,538,954	100.00	584,972,081	100.00	1,268,259,057	100.000

Notes:

(1) These Shares included 11,147,000 Shares held by Pacific Annex Capital Limited and 13,296,000 Shares held by Dr. Li Zhong Yuan, a Director. Since Pacific Annex Capital Limited is wholly-owned by Dr. Li Zhong Yuan, Dr. Li Zhong Yuan is deemed to be interested in the Shares held by Pacific Annex Capital Limited.

(2) These Shares included 1,295,000 Shares held by 2Trade Group Limited and 250,000 Shares held by Mr. Martin Treffer, a Director. Since 2Trade Group Limited is beneficially owned as to 35% by Mr. Martin Treffer, Mr. Martin Treffer is deemed to be interested in the Shares held by 2Trade Group Limited.

(3) Mr. Zhou Bao Yi, Mr. Mu Xiangming, Dr. Yan Shi Yun and Mr. Jiang Bo are Directors.

(4) Capital Foresight Limited, the holder of the Preference Shares, is beneficially owned by Mr. Yu Feng, Mr. Chen Li Bo and Mr. Li Xiao Ru. Upon full conversion of the Preference Shares in accordance with their terms and conditions, 364,687,500 Shares will be issued to Capital Foresight Limited.

(5) Pursuant to the Agreement, the Procurer shall not (and shall procure that any Nominees shall not) exercise any right to convert the Convertible Notes into Conversion Shares to the extent that following such exercise (i) the Procurer, the Guarantors, the Nominees and any parties acting in concert with any of them, taken together, would directly or indirectly, control or be interested in 30% or more of the entire issued share capital of the Company or in such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer; or (ii) would cause the Company to be in breach of the minimum public float requirement stipulated in Rule 8.08 of the Listing Rules. Accordingly, the Acquisition shall not result in a change of control of the Company.

(6) The existing convertible securities of the Company include the Preference Shares, the Existing Convertible Notes and an aggregate of 19,961,000 outstanding share options with exercise prices in the range of HK$0.5 to HK$8.6 each. Save as aforementioned, the Company has no other convertible securities outstanding as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the holders of the existing convertible securities of the Company has any relationship with the Procurer and/or the Guarantors.

(7) This scenario is presented for illustrative purpose only and it shall not occur in reality.

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately after Completion, the Company shall hold the entire equity interest in the Target and the Other Assets and the results and assets and liabilities of the Acquired Assets shall be consolidated into the accounts of the Group.

As set out in the unaudited pro forma financial information on the Enlarged Group in Appendix III to this circular, if the Acquisition had been completed on 1 April 2009, the Group would have recorded a net profit attributable to the owners of the Company for the year ended 31 March 2010 of approximately HK$42.6 million instead of a consolidated net loss attributable to the owners of the Company for the year ended 31 March 2010 of approximately HK$89.7 million. If the Acquisition had been completed on 30 September 2010, the consolidated total assets and total liabilities of the Group would have been increased by approximately HK$3,935.8 million and HK$454.2 million respectively.

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

As disclosed in the 2010 annual report of the Company, the Group has been facing financial distress which has ongoing negative impacts on the operating activities of the Group. As such, the Group has been making every best effort to work out a solution to the insolvency problem of the Company, including but not limited to, bringing in viable assets and/or projects to the Group to enable a restructuring of its defaulted financial obligations.

The Acquired Assets has been engaged in the funeral industry in the PRC for a considerable period of time and has established its brand name with the provision of high quality services in the region. By diversifying the Group's existing business to the provision of funeral services in the PRC, which is fast growing, the Directors expect that the Acquisition shall bring in additional revenue to the Group and improve the Group's future profitability.

At present, the Group has no intentions to effect any substantive change to its existing business after the Acquisition. The Company neither has entered into, nor has any present plan to enter into any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) on disposal, termination or scaling-down of any subsidiary, existing business or major assets of the Group. At present, the Company has no plans to change the composition of its Board or appoint any of the substantial shareholders of the Procurer, the Nominees and the Guarantors as a Director, a controller or a chief executive of the Company before and/or after the Completion. Furthermore, none of the Procurer, the Nominees and/or the Guarantors has/will have any contractual rights for nomination of directors to the board of the Target and/or the Board. However, having considered that the Target will be engaged in a completely different business from the existing business of the Group, the existing management of the Acquired Assets will be retained by the Group and a management committee comprises members of the Board and management of the Acquired Assets will be established to manage the daily operation of the funeral business after the Completion. Competent management staff will also be recruited to manage the funeral business as and when appropriate.

On 29 December 2010, the Company, the New CN Subscribers and the New CN Guarantors entered into the New CN Subscription Term Sheet, pursuant to which the Company has conditionally agreed to issue, and the New CN Subscribers have conditionally agreed to subscribe, the New CN with an aggregate principal amount of HK$778.0 million. The New CN shall carry the rights to convert into 1,620,833,334 new Shares at an initial conversion price of HK$0.48 per Share. The total gross proceeds from the New CN Subscription will be amounted to approximately US$100.0 million (equivalent to approximately HK$778.0 million) while the net proceeds from the New CN Subscription, after deducting the related expenses of approximately US$1.0 million (equivalent to approximately HK$7.78 million), is estimated to be approximately US$99.0 million (equivalent to approximately HK$770.2 million), which shall be applied for the development of the Group's funeral and cemetery business. Completion of the New CN Subscription is subject to the completion of the Acquisition. (Please refer to the Company's announcement dated 29 December 2010 for further details of the New CN Subscription.) The Directors expect that the financial position of the Group will be improved significantly after completion of the Acquisition and the New CN Subscription.

INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorized and issued share capital of the Company are HK$500,000,000, divided into 5,000,000,000 Shares, and HK$40,953,895.40, divided into 409,538,954 Shares, respectively. In order to facilitate the issue of the Conversion Shares which may be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes, the Board proposed to increase its authorized share capital from HK$500,000,000 to HK$10,000,000,000 by the creation of additional 95,000,000,000 Shares.

The Capital Increase is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

LISTING RULES IMPLICATION

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval by the Shareholders, by way of poll, at the SGM. Since no Shareholders have any material interest in the Acquisition and the Capital Increase which is different from other Shareholders and none of the Guarantors, the Procurer and their respective associates held any Share as at the Latest Practicable Date, no Shareholders are required to abstain from voting at the SGM to approve the Agreement and the transactions contemplated thereunder and the Capital Increase.

SGM

The SGM will be held at 10:00 a.m. on 10 March 2011 at 5/F., Building 88, 1199 North Qin Zhou Road, Caohejing Hi-Tech Park, Xuhui District, Shanghai, China to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder and the Capital Increase.

Notice of the SGM is set out on pages 343 to 344 of this circular and the form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

RECOMMENDATION

The Directors consider that the terms and conditions of the Agreement are fair and reasonable and the entering into of the Agreement and the Capital Increase are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolutions to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder and the Capital Increase.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China HealthCare Holdings Limited
Zhou Bao Yi
Executive Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the six months ended 30 September 2010 and the three years ended 31 March 2010, as extracted from the interim report and the annual reports of the Company respectively, is set out below.

Results

	For the six months ended 30 September	For the year ended 31 March		
	2010	**2010**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited) (restated)	(audited)
Turnover	1,442,154	2,776,413	2,870,719	2,867,570
(Loss)/profit before tax	(87,613)	(98,425)	35,034	(21,909)
Income tax expense	(1,677)	(386)	(1,451)	(2,091)
Net (loss)/profit attributable to owners of the Company	(85,850)	(89,695)	18,806	(25,152)
(Loss)/earnings per Share				
– Basic	(HK$0.29)	(HK$0.38)	HK$0.08	(HK$0.11)
– Diluted	N/A	N/A	N/A	N/A
Dividend per Share	–	–	–	–

Assets and Liabilities

	As at 30 September	As at 31 March		
	2010	**2010**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited) (restated)	(audited)
Total assets	342,444	294,892	280,623	196,441
Total liabilities	(377,264)	(316,710)	(218,120)	(241,040)
Net (liabilities)/assets	(34,820)	(21,818)	62,503	(44,599)
Equity attributable to owners of the Company	(123,023)	(112,759)	(36,852)	(57,607)
Minority interests	88,203	90,941	99,355	13,008
Total equity	(34,820)	(21,818)	62,503	(44,599)

2. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 AND THE YEAR ENDED 31 MARCH 2010

The unaudited financial information of the Group for the six months ended 30 September 2010 is disclosed in the 2010 interim report of the Company and the audited financial information of the Group for the year ended 31 March 2010 is disclosed in the 2010 annual report of the Company, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.chinahealthcareltd.com).

3. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

(i) Secured Bank Borrowings

The Enlarged Group had outstanding bank borrowings of approximately RMB19,950,000 (equivalent to approximately HK$23,372,000) secured by the Enlarged Group's property, plant and equipment with a total carrying amount of approximately RMB14,926,000 (equivalent to approximately HK$17,486,000). The bank borrowings will be due on 24 March 2011.

(ii) Convertible bonds

The Enlarged Group had convertible bonds ("CB1") with an outstanding principal amount of US$5,460,000 which is unsecured, bears interest at the rate of 3% per annum and had been overdue since 18 May 2009. The carrying amount of the liability component of the convertible bonds as at 31 December 2010 was approximately HK$45,362,000.

(iii) Redeemable convertible cumulative preference shares

The Enlarged Group had redeemable convertible cumulative preference shares with an outstanding principal amount of US$15,000,000 which is unsecured, bears interest at the rate of 5% per annum and due for repayment on 28 July 2011. The Preference Shares have become repayable on demand since the breach of covenant by the Company due to default in repayment of CB1. The carrying amount of the liability component of the Preference Shares as at 31 December 2010 was approximately HK$245,734,000.

(iv) Amounts due to the existing shareholders of Shanghai FSY

The Enlarged Group had amounts due to existing shareholders of Shanghai FSY approximately RMB7,255,000 (equivalent to approximately HK$8,499,000) which is unsecured, interest-free and repayable on demand.

(v) Loan from existing holding company of Shandong FSY

The Enlarged Group had a loan from existing holding company of Shandong FSY of approximately RMB51,873,000 (equivalent to approximately HK$60,769,000), which is unsecured, bears interest at the rate of 6.06% per annum and repayable on demand.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have any issued or outstanding debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, contingent liabilities or guarantees as at the close of business on 31 December 2010.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account the internal resources and credit facilities available to the Enlarged Group upon completion of the Acquisition, the Enlarged Group will have sufficient working capital for at least the next twelve months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company, although the revenue and gross profit of the Group for the six months ended 30 September 2010 increased by approximately 3.9% and 54.9%, respectively, as compared to the last corresponding period, the loss attributable to the owners of the Company increased significantly from approximately HK$21.9 million (restated) for the six months ended 30 September 2009 to approximately HK$85.9 million for the six months ended 30 September 2010, representing an increment of approximately 292.2%. The increase in loss was mainly attributable to the increase in fair value loss on derivative component of redeemable convertible cumulative preference shares and finance costs of approximately HK$21.7 million and HK$39.1 million respectively.

Save for the information disclosed above, the Directors confirm that as at the Latest Practicable Date, there have been no other material adverse changes in the financial or trading position of the Group since 31 March 2010, being the date to which the latest audited consolidated financial statements of the Company were made up.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, regarding the financial information of Shanghai FSY Group for the three years ended 31 December 2009 and the nine months ended 30 September 2010.

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

23 February 2011

The Board of Directors
China Healthcare Holdings Limited
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 上海福壽園實業發展有限公司 (Shanghai Fu Shou Yuan Industry Development Co., Ltd.) ("Shanghai FSY") and its subsidiaries (hereinafter collectively referred to as the "Shanghai FSY Group") for each of the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the "Relevant Periods") and the comparative financial information of Shanghai FSY Group for the nine months ended 30 September 2009 (the "2009 Comparative Information"), prepared for inclusion in the circular of China Healthcare Holdings Limited ("China Healthcare") (together with its subsidiaries referred to as the "Group") dated 23 February 2011 (the "Circular") in connection with the proposed acquisition of 100% equity interest in Shanghai FSY (the "Acquisition I").

Shanghai FSY was established as a limited company in the People's Republic of China (the "PRC") on 21 February 1994 and is engaged in development and construction of cemetery and provision of funeral arrangement services in the PRC.

Particulars of Shanghai FSY's subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of company	Place and date of establishment	Fully paid and registered capital as at the date of this report	Attributable equity interest directly held by Shanghai FSY as at 31 December 2007	2008	2009	30 September 2010	the date of report	Principal activity
重慶安樂服務有限公司 (Chongqing Anle Services Co., Ltd.*) ("Chongqing Anle Service")	PRC	RMB1,000,000	90%	90%	90%	90%	90%	Provision of funeral arrangement services in the PRC
河南福壽園實業有限公司 *(note a)* (Henan Fu Shou Yuan Industry Co., Ltd.*) ("Henan FSY")	PRC	RMB30,120,000	–	55.01%	55.01%	55.01%	55.01%	Development and construction of cemetery and provision of related management PRC
上海南院實業發展有限公司 (Shanghai Nanyuan Industry Development Co., Ltd.*) ("Shanghai Nanyuan")	PRC	RMB50,000,000	40%#	40%#	40%#	40%#	40%#	Development and construction of cemetery and provision of related management services in the PRC

* The English names are for identification purpose only.

Shanghai FSY has the power to govern the financial and operating policies of Shanghai Nanyuan so as to obtain benefits from its activities.

Note:

(a) On 11 March 2009, 河南中州名人園開發管理有限公司 (Henan Zhongzhou Ming Ren Yuan Development and Management Company) renamed to 河南福壽園實業有限公司 (Henan Fu Shou Yuan Industry Co., Ltd.).

The statutory financial statements of Shanghai FSY and its subsidiaries for the three years ended 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of company	Financial period	Statutory auditors
Shanghai FSY	Year ended 31 December 2007	上海宏大東亞會計師事務所 (Shanghai HDDY CPAs Co., Ltd.*)
	Years ended 31 December 2008 and 2009	立信會計師事務所有限公司 Shu Lun Pan CPAs Co., Ltd.
Chongqing Anle Service	Year ended 31 December 2007	上海宏大東亞會計師事務所 (Shanghai HDDY CPAs Co., Ltd.*)
	Years ended 31 December 2008 and 2009	立信會計師事務所有限公司 Shu Lun Pan CPAs Co., Ltd.
Henan FSY	Years ended 31 December 2008 and 2009	立信會計師事務所有限公司 Shu Lun Pan CPAs Co., Ltd.
Shanghai Nanyuan	Years ended 31 December 2008 and 2009	上海財瑞會計師事務所有限公司 (Shanghai Cai Rui Certified Public Accountants Co., Ltd*)

* The English names are for identification purpose only.

No statutory audited financial statements have been prepared for these entities in respect of any period subsequent to 31 December 2009.

BASIS OF PREPARATION

For the purpose of this report, the directors of Shanghai FSY have prepared the consolidated financial statements of the Shanghai FSY Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), including Hong Kong Accounting Standards ("HKASs") and Interpretation, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited ("Listing Rules"). The Underlying Financial Statements for each of three years ended 31 December 2009 and the nine months ended 30 September 2010 were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by HKICPA.

The financial information of the Relevant Periods (the "Financial Information") has been prepared based on the audited financial statements or, where appropriate, unaudited financial statements of the Shanghai FSY and its subsidiaries now comprising the Shanghai FSY Group whereas no adjustment are considered necessary.

For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant".

DIRECTORS' RESPONSIBILITY

The directors of Shanghai FSY are responsible for the preparation and the true and fair view of the Financial Information in accordance with HKFRSs and the applicable disclosure requirement of the Listing Rules, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

In respect of the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards of Auditing and the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

In respect of the 2009 Comparative Information, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We concluded our review in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim financial information Performed by the Independent Auditor on the Entity". A review of the 2009 Comparative Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shanghai FSY Group as at 31 December 2007, 2008 and 2009 and 30 September 2010, and of its results and cash flows for the relevant periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Financial information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note B(1) to the financial statements which indicates that Shanghai FSY's current liabilities exceeded its current assets by approximately RMB31,404,000, RMB40,369,000 and RMB14,298,000 as at 31 December 2008 and 31 December 2009 and 30 September 2010 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about Shanghai FSY's ability to continue as a going concern.

A. FINANCIAL INFORMATION

1. Consolidated Statements of Comprehensive Income

		For the year ended 31 December			For the nine months ended 30 September	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*4*	182,227	250,947	252,071	194,789	232,275
Cost of sales		(49,494)	(75,517)	(59,403)	(44,862)	(53,380)
Gross profit		132,733	175,430	192,668	149,927	178,895
Other gains and losses	*6*	1,767	4,938	260	127	555
Selling and distribution expenses		(17,415)	(30,076)	(29,155)	(25,216)	(29,379)
Administrative expenses		(45,654)	(63,658)	(57,422)	(43,547)	(44,530)
Other expenses		(367)	(542)	(468)	(458)	(343)
Finance costs	*10*	(3,315)	(7,431)	(4,977)	(3,913)	(908)
Share of result of an associate	*16*	1,961	2,203	2,685	2,447	3,809
Profit before income tax	*7*	69,710	80,864	103,591	79,367	108,099
Income tax expense	*11*	(25,189)	(19,309)	(23,447)	(17,060)	(20,236)
Profit and comprehensive income for the year/period		44,521	61,555	80,144	62,307	87,863
Total comprehensive income attributable to:–						
– Shareholders of Shanghai FSY		46,393	56,627	73,536	55,514	75,713
– Non-controlling interests		(1,872)	4,928	6,608	6,793	12,150
		44,521	61,555	80,144	62,307	87,863

2. Consolidated Statements of Financial Position

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	56,934	57,628	79,431	92,828
Goodwill	*14*	16,486	16,614	16,614	16,614
Interests in associates	*16*	3,361	3,424	4,109	7,918
Deposit paid for acquisition of cemetery assets		–	7,299	7,299	7,299
Deferred tax assets	*24*	1,907	1,657	1,567	1,342
Total non-current assets		78,688	86,622	109,020	126,001
Current assets					
Cemetery assets	*13*	43,841	241,432	239,591	231,319
Inventories	*18*	20,575	10,304	10,182	10,052
Trade and other receivables	*19*	119,477	184,230	118,308	18,477
Financial assets held for trading	*20*	–	100	100	100
Pledged bank deposit	*17*	20,000	–	–	–
Cash and cash equivalents		66,174	47,432	74,654	122,455
Total current assets		270,067	483,498	442,835	382,403
Current liabilities					
Trade and other payables	*21*	147,443	234,054	194,214	91,196
Bank borrowings	*22*	33,000	35,000	29,950	29,950
Income tax payable		27,760	35,189	53,780	64,377
Deferred revenue		4,418	5,098	5,808	5,950
Total current liabilities		212,621	309,341	283,752	191,473
Net current assets		57,446	174,157	159,083	190,930
Total assets less current liabilities		136,134	260,779	268,103	316,931

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank borrowings	*22*	–	25,000	20,000	–
Deferred revenue		13,950	17,214	20,104	20,201
Deferred tax liabilities	*24*	–	27,830	27,407	26,762
Amounts due to shareholders	*21*	–	–	–	53,918
Total non-current liabilities		13,950	70,044	67,511	100,881
TOTAL NET ASSETS		122,184	190,735	200,592	216,050
Capital and reserves					
Share capital	*23*	30,000	30,000	30,000	30,000
Capital reserve		7,137	7,137	7,137	7,137
PRC statutory reserve	*32(a)*	23,614	24,493	25,567	27,558
Retained earnings		32,758	47,602	50,928	52,245
Equity attributable to shareholders of Shanghai FSY		93,509	109,232	113,632	116,940
Non-controlling interests		28,675	81,503	86,960	99,110
EQUITY		122,184	190,735	200,592	216,050

3. Statements of Financial Position

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	53,081	46,477	63,512	77,733
Interest in an associate	*16*	2,820	2,912	3,052	6,261
Interests in subsidiaries	*15*	35,500	91,059	91,059	91,059
		91,401	140,448	157,623	175,053
Current assets					
Cemetery assets	*13*	43,841	37,054	40,150	36,038
Inventories	*18*	3,579	3,640	3,805	2,955
Trade and other receivables	*19*	59,427	88,834	129,761	19,318
Pledged bank deposit	*17*	20,000	–	–	–
Cash and cash equivalents		60,183	36,812	49,956	81,652
		187,030	166,340	223,672	139,963
Current liabilities					
Trade and other payables	*21*	115,766	127,832	181,850	70,684
Borrowings	*22*	33,000	35,000	29,950	19,950
Deferred revenue		4,418	5,036	5,699	6,000
Income tax payable		24,940	29,876	46,542	57,627
		178,124	197,744	264,041	154,261
Net current (liabilities)/assets		8,906	(31,404)	(40,369)	(14,298)
Total assets less current liabilities		100,307	109,044	117,254	160,755
Non-current liabilities					
Deferred revenue		13,950	16,498	19,033	20,201
Amounts due to shareholders	*21*	–	–	–	53,918
Total non-current liabilities		13,950	16,498	19,033	74,119
TOTAL NET ASSETS		86,357	92,546	98,221	86,636
Capital and reserves					
Share capital	*23*	30,000	30,000	30,000	30,000
Capital Reserve		22,500	22,500	22,500	22,500
PRC statutory reserve	*32(a)*	5,000	5,000	5,000	5,000
Retained earnings		28,857	35,046	40,721	29,136
EQUITY		86,357	92,546	98,221	86,636

4. Consolidated Statements of Changes in Equity

	Share capital *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Retained earnings *RMB'000*	Equity attributable to shareholders of the Shanghai FSY *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2007	30,000	7,137	23,614	32,731	93,482	547	94,029
Total comprehensive income for the year	–	–	–	46,393	46,393	(1,872)	44,521
Capital contribution from non-controlling interests	–	–	–	–	–	30,000	30,000
Dividends	–	–	–	(46,366)	(46,366)	–	(46,366)
Balance at 31 December 2007 and 1 January 2008	30,000	7,137	23,614	32,758	93,509	28,675	122,184
Total comprehensive income for the year	–	–	–	56,627	56,627	4,928	61,555
Acquisition of a subsidiary	–	–	–	–	–	47,900	47,900
Transfer to statutory reserve	–	–	879	(879)	–	–	–
Dividends	–	–	–	(40,904)	(40,904)	–	(40,904)
Balance at 31 December 2008 and 1 January 2009	30,000	7,137	24,493	47,602	109,232	81,503	190,735
Total comprehensive income for the year	–	–	–	73,536	73,536	6,608	80,144
Transfer to statutory reserve	–	–	1,074	(1,074)	–	–	–
Dividends	–	–	–	(69,136)	(69,136)	–	(69,136)
Dividends paid to non-controlling interests	–	–	–	–	–	(1,151)	(1,151)
Balance at 31 December 2009 and 1 January 2010	30,000	7,137	25,567	50,928	113,632	86,960	200,592
Total comprehensive income for the period	–	–	–	75,713	75,713	12,150	87,863
Transfer to statutory reserve	–	–	1,991	(1,991)	–	–	–
Dividends	–	–	–	(72,405)	(72,405)	–	(72,405)
Balance at 30 September 2010	30,000	7,137	27,558	52,245	116,940	99,110	216,050
(Unaudited)							
Balance at 1 January 2009	30,000	7,137	24,493	47,602	109,232	81,503	190,735
Total comprehensive income for the period	–	–	–	55,514	55,514	6,793	62,307
Transfer to statutory reserve	–	–	1,126	(1,126)	–	–	–
Dividends	–	–	–	(46,040)	(46,040)	–	(46,040)
Balance at 30 September 2009 (unaudited)	30,000	7,137	25,619	55,950	118,706	88,296	207,002

5. Consolidated Statements of Cash Flows

	For the year ended 31 December			For the nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Cash flows from operating activities					
Profit before income tax	69,710	80,864	103,591	79,367	108,099
Adjustments for:					
Depreciation of property, plant and equipment	7,364	12,065	10,118	4,637	7,662
Loss/(gain) on disposal of property, plant and equipment, net	53	192	54	–	(3)
Share of result of associates	(1,961)	(2,203)	(2,685)	(2,447)	(3,809)
Bargain gain on acquisition of a subsidiary	–	(2,866)	–	–	–
Interest expenses	3,315	7,431	4,977	3,913	908
Interest income	(634)	(1,125)	(386)	(178)	(467)
Operating profit before changes in working capital	77,847	94,358	115,669	85,292	112,390
Changes in working capital:					
(Increase)/decrease in inventories	(16,355)	10,657	122	8	130
(Increase)/decrease in cemetery assets	(3,057)	(73,591)	1,841	103	8,272
(Increase)/decrease in trade and other receivables	(58,140)	27,247	(26,078)	(21,399)	99,831
Increase/(decrease) in trade and other payables	44,355	51,240	(60,142)	(66,760)	(100,696)
Increase in deposit for purchase of cemetery assets	–	(7,299)	–	–	–
Increase in amounts due to shareholders	–	–	–	–	53,918
Increase in deferred revenue	3,906	3,944	3,600	1,751	239
Cash generated from/(used in) operations	48,556	106,556	35,012	(1,005)	174,084
Interest paid	(2,279)	(5,782)	(4,174)	(4,145)	(3,230)
Interest received	634	1,125	386	178	467
Income tax paid	–	(10,764)	(5,189)	(6,262)	(10,059)
Net cash generated from/(used in) operating activities	46,911	91,135	26,035	(11,234)	161,262

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Cash flows from investing activities					
Dividend received	1,400	2,140	2,000	–	–
Proceeds from disposal of property, plant and equipment	2,403	365	298	–	103
Purchase of property, plant and equipment	(2,741)	(6,643)	(32,274)	(7,800)	(21,159)
Acquisition of a subsidiary *(Note 26)*	–	(45,322)	–	–	–
Decrease in pledged bank deposit	–	20,000	–	–	–
Investment in investment fund	–	(100)	–	–	–
Net cash generated from/(used in) investing activities	1,062	(29,560)	(29,976)	(7,800)	(21,056)
Cash flows from financing activities					
Dividends paid to shareholders of Shanghai FSY	(30,138)	(15,317)	(49,636)	(46,040)	(72,405)
Loan to a related company of non-controlling interest	–	(92,000)	–	–	–
Repayment of loan by a related company of non-controlling interest	–	–	92,000	92,000	–
Proceed from bank borrowings	–	60,000	30,000	30,000	19,950
Repayment of bank borrowings	–	(33,000)	(40,050)	(35,000)	(39,950)
Capital contribution from non-controlling interests	30,000	–	–	–	–
Dividend paid to non-controlling interest	–	–	(1,151)	–	–
Net cash (used in)/generated from financing activities	(138)	(80,317)	31,163	40,960	(92,405)
Net increase/(decrease) in cash and cash equivalents	47,835	(18,742)	27,222	21,926	47,801
Cash and cash equivalents at beginning of the year/period	18,339	66,174	47,432	47,432	74,654
Cash and cash equivalents at end of the year/period, comprising bank balances and cash	66,174	47,432	74,654	69,358	122,455

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Shanghai FSY is a limited liability company established in the PRC on 21 February 1994. Its holding company is 中國中福實業有限公司 ("China Zhongfu Industrial Co., Ltd."). The principal place of business of Shanghai FSY is situated at Rm1306, No.88 Cao Xi Road North, Shanghai, 200030, PRC. Shanghai FSY and its subsidiaries' principal activities are development and construction of cemetery and provision of funeral arrangement services in the PRC.

In preparing the Financial Information, the directors of the Shanghai FSY Group have given careful consideration to the future liquidity of Shanghai FSY in light of the net current liabilities of RMB31,404,000, RMB40,369,000 and RMB14,298,000 respectively at 31 December 2008, 2009 and 30 September 2010. These conditions indicates the existence of a material uncertainty that may cast significant doubt on Shanghai FSY's ability to continue as a going concern and therefore, Shanghai FSY may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of Shanghai FSY are of the opinion that taking into account the estimated future funds generated from the operation, Shanghai FSY has sufficient financial resources to meet its financial obligation as they fall due for the foreseeable future.

In addition, the shareholder of Shanghai FSY, 上海眾福國際貿易有限公司 ("Shanghai Zhongfu International Trading Co., Ltd.") has agreed to provide adequate financial support to enable Shanghai FSY to meet in full its financial obligations until the completion of the Acquisition. China Health has also agreed that upon the completion of the Acquisition, it will provide financial support to Shanghai FSY to enable it to meet its financial obligations as they fall due for the foreseeable future. Accordingly the Financial Information have been prepared on a going concern basis.

The Financial Information of the Relevant Periods has been prepared in accordance with the accounting policies detailed in Note 3, which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards, amendments and interpretations ("new HKFRSs"), which are effective for the accounting periods beginning on 1 January 2010. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Shanghai FSY Group has consistently adopted all the new HKFRSs throughout the Relevant Periods.

Other than as specifically identified above, at the date of this report, Shanghai FSY Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures, except for the partial exemption from the disclosure requirements for government related entities[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exception from Comparative HKFRS 7 disclosure for Fist-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial instruments[7]
HKFRIC-INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HKFRIC-INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Shanghai FSY Group's financial assets.

The amendments to IFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets, allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The directors of Shanghai FSY anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs"), which collective terms includes Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional, presentation currency

The Financial Information are presented in Renminbi ("RMB"), which is the functional currency of Shanghai FSY.

(d) Basis of consolidation

The Financial Information comprises the financial statements of Shanghai FSY and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full on consolidation.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Non-controlling interests in subsidiaries are identified separately from Shanghai FSY's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Changes in Shanghai FSY's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of Shanghai FSY's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of Shanghai FSY.

When Shanghai FSY loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly-controlled entity.

(e) Subsidiaries

A subsidiary is an entity over which Shanghai FSY is able to exercise control. Control is achieved where Shanghai FSY, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In Shanghai FSY's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by Shanghai FSY on the basis of dividend received and receivable.

(f) Associates

An associate is an entity over which Shanghai FSY Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for Shanghai FSY Group's share of the post-acquisition change in the associates' net assets except that losses in excess of Shanghai FSY Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between Shanghai FSY Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of Shanghai FSY Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

(g) Goodwill

Goodwill is initially measured at cost, being the excess of the consideration transferred over Shanghai Fu Shou Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss, after re-assessment.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(h) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Shanghai Fu Shou Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	14 to 36 years or over the terms of the leases, whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years
Other equipments	5 to 8 years

Construction in progress is stated at cost less any accumulated impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit and loss on disposal.

(i) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(j) Leasing

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Shanghai FSY as lessee

Payments made under operating leases (net of any incentives received from the lessor), are recognised in profit or loss on a straight-line basis over the period of the lease.

(k) Cemetery assets

Cemetery assets represent cost of land use right and related improvement that are directly attributable to development and construction of cemetery, are carried at costs less any accumulated impairment losses. Cemetery assets are transferred to costs of sales when they are sold.

(l) Financial instruments

(i) Financial assets

Shanghai FSY Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Loans and receivables are initially recognised fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method, less any identified impairment losses unless the effects of discounting would be immaterial, in which case, they are stated at cost.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(ii) Impairment loss on financial assets

Shanghai FSY Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Financial liabilities include borrowings, trade payables and other liabilities. They are initially recognised at fair value net off directly attributable transaction costs and subsequently measured at amortised cost using effective interest method, unless the effects of discounting is immaterial, in which case, they are stated at cost. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in the combined statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by Shanghai FSY are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by Shanghai FSY is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recog nised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Derecognition

Shanghai FSY Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(m) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

A conveyance of the right to use grave plots and niches for cremation urns is recognised as a sale of the grave plots and niches for cremation urns when Shanghai FSY Group has transferred to the customers the right to use the grave plots and niches for cremation urns upon the execution of a binding agreement.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where Shanghai FSY 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) Foreign currency

Transactions entered into by Shanghai FSY Group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

(q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Shanghai FSY and its subsidiaries incorporated in the PRC makes monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised as an expense in profit or loss as employees render services during the year, except to the extent that they are included in the cost of inventories not yet recognised as an expense. Shanghai FSY Group's obligations under these plans are limited to the fixed percentage contributions payable.

(r) Impairment of other assets

At the end of each reporting period, Shanghai FSY Group reviews the carrying amounts of property, plant and equipment, cemetery assets, investment in subsidiary and associate to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(s) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Shanghai FSY Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Provisions are not recognised for future operating losses.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Related parties

For the purposes of the Financial information, a party is considered to be related to Shanghai FSY Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, Shanghai FSY Group (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the entity that gives it significant influence over Shanghai FSY Group; or
- has joint control over Shanghai FSY Group;

(b) the party is an associate (as defined in HKAS 28 Investments in Associated) of Shanghai FSY Group;

(c) the party is a joint venture in which Shanghai FSY Group is a venturer (as defined in HKAS 31 Interest in Joint Ventures);

(d) the party is a member of the key management personnel of Shanghai FSY Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of Shanghai FSY Group, or of any entity that is a related party of Shanghai FSY Group.

4. REVENUE

Revenue recognised as turnover of Shanghai FSY Group is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Sales of the grave plots and niches for cremation urns	167,569	229,921	228,137	176,551	210,740
Funeral arrangement services	14,658	21,026	23,934	18,238	21,535
	182,227	250,947	252,071	194,789	232,275

5. SEGMENT INFORMATION

Shanghai FSY Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

Shanghai FSY Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summarise the operations in each reportable segments:

- Cemetery Division – development and construction of cemetery for sale of the grave plots and niches for cremation urns;

- Funeral arrangement service Division – provision of funeral arrangement services;

Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

An analysis of Shanghai FSY Group's turnover and results by reportable segment is as follows:

Segment turnover and segment results

Year ended 31 December 2007

	Cemetery division	Funeral arrangement service division	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	167,569	14,658	182,227
Segment result	64,901	4,396	69,297
Share of profits of associates	1,677	284	1,961
Unallocated income and expenses:			
– Investment income			1,007
– Other gain and losses			760
– Finance costs			(3,315)
Profit before income tax			69,710
Income tax expense			(25,189)
Profit for the year			44,521

Year ended 31 December 2008

	Cemetery division	Funeral arrangement service division	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	229,921	21,026	250,947
Segment result	74,943	6,211	81,154
Share of profit/(loss) of associates	2,232	(29)	2,203
Unallocated income and expenses:			
– Investment income			822
– Other gains and losses			4,116
– Finance costs			(7,431)
Profit before income tax			80,864
Income tax expense			(19,309)
Profit for the year			61,555

Year ended 31 December 2009

	Cemetery division *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
Revenue	228,137	23,934	252,071
Segment result	98,528	7,095	105,623
Share of profit of associates	2,140	545	2,685
Unallocated income and expenses:			
– Investment income			19
– Other gains and losses			241
– Finance costs			(4,977)
Profit before income tax			103,591
Income tax expense			(23,447)
Profit for the year			80,144

Nine months ended 30 September 2010

	Cemetery division *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
Revenue	210,740	21,535	232,275
Segment result	96,939	7,704	104,643
Share of profits of associates	3,209	600	3,809
Unallocated income and expenses:			
– Other gains and losses			555
– Finance costs			(908)
Profit before income tax			108,099
Income tax expense			(20,236)
Profit for the year			87,863

Nine months ended 30 September 2009 (unaudited)

	Cemetery division	Funeral arrangement service division	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	176,551	18,238	194,789
Segment result	73,885	6,821	80,706
Share of profits of associates	1,992	455	2,447
Unallocated income and expenses:			
– Other gains and losses			127
– Finance costs			(3,913)
Profit before income tax			79,367
Income tax expense			(17,060)
Profit for the period			62,307

Segment assets and liabilities

	Cemetery division *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
31 December 2007			
Assets			
Segment assets	338,095	7,299	345,394
Interests in associates	2,820	541	3,361
	340,915	7,840	348,755
Liabilities			
Segment liabilities	222,484	4,087	226,571
31 December 2008			
Assets			
Segment assets	557,177	9,519	566,696
Interests in associates	2,912	512	3,424
	560,089	10,031	570,120
Liabilities			
Segment liabilities	373,759	5,626	379,385
31 December 2009			
Assets			
Segment assets	538,387	9,359	547,746
Interests in associates	3,052	1,057	4,109
	541,439	10,416	551,855
Liabilities			
Segment liabilities	345,091	6,172	351,263
30 September 2010			
Assets			
Segment assets	480,475	20,011	500,486
Interests in associates	6,261	1,657	7,918
	486,736	21,668	508,404
Liabilities			
Segment liabilities	286,724	5,630	292,354

6. OTHER GAIN AND LOSSES

An analysis of other gain and losses are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fair value gain of financial assets at FVTPL	1,007	822	19	–	–
(Loss)/gain on disposal of property, plant and equipment	(53)	(192)	(54)	–	3
Interest income	634	1,125	386	178	467
Bargain gain on acquisition of a subsidiary	–	2,866	–	–	–
Others	179	317	(91)	(51)	85
	1,767	4,938	260	127	555

7. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Carrying amount of inventories sold	39,033	56,271	45,474	34,414	41,387
Costs of cemetery assets recognised as cost of sales	10,461	19,246	13,930	10,448	11,993
Operating lease rentals in respect of office buildings	1,976	2,946	2,749	1,806	2,101
Staff costs (including directors' and supervisors' remuneration)					
– Basic salaries, housing and other allowances and benefits in kind	10,588	22,937	23,036	13,839	16,962
– Defined contribution pension cost	4,480	6,239	7,116	5,224	6,060
Auditors' remuneration	18	28	20	–	–

8. DIRECTORS' EMOLUMENTS

Details of directors' emoluments during the Relevant Periods are as follows:

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2007			
Executive directors:			
Lin Hong Ming	–	–	–
Bai Xiao Jiang	–	–	–
Lu He Sheng	–	–	–
Wang Ji Sheng	106	29	135
Tan Li Ping	–	–	–
Leon Tan	–	–	–
	106	29	135
Year ended 31 December 2008			
Executive directors:			
Lin Hong Ming	–	–	–
Bai Xiao Jiang	–	–	–
Lu He Sheng	–	–	–
Wang Ji Sheng	480	29	509
Tan Li Ping	–	–	–
Leon Tan	–	–	–
	480	29	509
Year ended 31 December 2009			
Executive directors:			
Lin Hong Ming	–	–	–
Bai Xiao Jiang	–	–	–
Lu He Sheng	–	–	–
Wang Ji Sheng	480	29	509
Tan Li Ping	–	–	–
Leon Tan	–	–	–
	480	29	509

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Nine months ended 30 September 2009 (unaudited)			
Executive directors:			
Lin Hong Ming	–	–	–
Bai Xiao Jiang	–	–	–
Lu He Sheng	–	–	–
Wang Ji Sheng	360	46	406
Tan Li Ping	–	–	–
Leon Tan	–	–	–
	360	46	406
Nine months ended 30 September 2010			
Executive directors:			
Lin Hong Ming	–	–	–
Bai Xiao Jiang	–	–	–
Lu He Sheng	–	–	–
Wang Ji Sheng	360	46	406
Tan Li Ping	–	–	–
Leon Tan	–	–	–
	360	46	406

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration for the Relevant Periods.

None of the directors and supervisors received compensation for the loss of office as a director or a supervisor of Shanghai FSY in connection with the management of the affairs for the Relevant Periods.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals in Shanghai FSY Group, one for each of the years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2009 and 30 September 2010, respectively, is the director whose emolument is included in Note 8 above. The emoluments of the remaining are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	438	1,596	1,596	1,062	1,062
Contribution to retirement benefit scheme	103	106	106	231	231
	541	1,702	1,702	1,293	1,293

The remuneration of the highest paid, non-director employee fell within the range of nil to RMB1,000,000.

10. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on bank advance and other borrowings:					
– wholly repayable within five years	3,315	7,431	4,977	3,913	908

11. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax					
– PRC enterprise income tax ("EIT")	26,985	18,196	23,780	17,463	22,102
– Overprovision of EIT in prior years	–	–	–	–	(1,446)
	26,985	18,196	23,780	17,463	20,656
Deferred tax *(note 24)*					
– current year	(1,679)	1,113	(333)	(403)	(481)
– attribute to decrease in tax rate	(117)	–	–	–	61
	(1,796)	1,113	(333)	(403)	(420)
Income tax expense	25,189	19,309	23,447	17,060	20,236

Taxation is calculated at the rates of tax prevailing in the countries in which Shanghai FSY operates, based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("New Tax Law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008. The State Council of the PRC issued the Implementation Rules of the Enterprise Income tax law ("Implementation Rules") on 6 December 2007 and GuoFa (2007) No. 39 Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Law Policies ("Circular 39") on 26 December 2007. The New Tax Law, its Implementation Rules and Circular 39 provide a five-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007. Consequently, Shanghai FSY is subject to tax rates of 25% from 2008 onwards.

The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the assets is realised or liability is settled under EIT law.

The applicable tax rates of Shanghai FSY and its subsidiaries for the Relevant Periods are as follows:

		Year ended 31 December			Nine months ended 30 September	
	Notes	**2007**	**2008**	**2009**	**2009**	**2010**
Shanghai FSY	*(i)*	33%	25%	25%	25%	25%
Chongqing Anle Service	*(ii)*	33%	15%	15%	15%	15%
Henan FSY		33%	25%	25%	25%	25%
Shanghai Nanyuan	*(iii)*	33%	25%	25%	25%	25%

Notes

(i) Shanghai FSY was granted preferential tax rates by the local tax authorities which was different from New Tax Law. The directors of Shanghai FSY were of the view that Shanghai FSY was subject to tax liabilities of EIT under the New Tax Law latest three years in accordance with local tax practice. Accordingly, the directors agreed that the full EIT provision based on the tax rates under the New Tax Law should be adopted each year.

(ii) With approval of the local tax authority (Yu Di Shui Mian (2010) No 102), the entity was subject to EIT rate of 15% from 1 January 2008 to 31 December 2010.

(iii) With approval of the local tax authority (Nan Guo Shui Zheng Zheng He (2009) No 42), 10% of the entity's revenue was subject to EIT of 25% from 1 January 2009 onwards.

(iv) The shareholders of Shanghai FSY Group agreed to indemnify the future tax obligation arising from the inconsistencies of local tax authorities to New Tax Law *(Notes 11(i))* and any future tax obligation arising from incorrect tax reporting *(Note 11(i), (ii) and (iii))*.

A reconciliation between income tax expense and profit before income tax at applicable tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before income tax	69,710	80,864	103,591	79,367	108,099
Tax at applicable statutory tax rates of 33% for 2007 and 25% for 2008, 2009 and 2010 in the PRC	23,004	20,216	25,898	19,842	27,025
Effect of preferential tax treatment	–	–	–	–	(832)
(Over) underprovision of EIT in respect of prior years	–	25	13	–	(1,446)
Tax effect of income not subject to tax	–	(717)	(1,969)	(2,204)	(4,197)
Tax effect of expenses not deductible for tax purposes	2,654	336	176	34	517
Tax effect of shares of results of associates	(647)	(551)	(671)	(612)	(892)
Others	178	–	–	–	61
Income tax expense	25,189	19,309	23,447	17,060	20,236

12. PROPERTY, PLANT AND EQUIPMENT

Shanghai FSY Group	Buildings and improvements	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
Balance at 1 January 2007	70,693	11,363	9,260	–	91,316
Additions	32	1,377	1,332	–	2,741
Disposals	(1,910)	(1,426)	(1,933)	–	(5,269)
Balance at 31 December 2007 and 1 January 2008	68,815	11,314	8,659	–	88,788
Acquired on acquisition of a subsidiary	3,368	612	449	2,651	7,080
Additions	1,550	2,382	2,543	168	6,643
Transfer	2,819	–	–	(2,819)	–
Disposals	(356)	(1,232)	(140)	–	(1,728)
Balance at 31 December 2008 and 1 January 2009	76,196	13,076	11,511	–	100,783
Additions	10,473	1,232	1,104	19,465	32,274
Disposals	(318)	(116)	(278)	–	(712)
Balance at 31 December 2009 and 1 January 2010	86,351	14,192	12,337	19,465	132,345
Additions	–	1,221	596	19,342	21,159
Transfer	9,970	–	–	(9,970)	–
Disposals	–	(265)	(175)	(25)	(465)
Balance at 30 September 2010	96,321	15,148	12,758	28,812	153,039

Shanghai FSY Group	Buildings and improvements	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation and impairment loss					
Balance at 1 January 2007	18,108	3,525	5,669	–	27,302
Depreciation for the year	3,747	2,176	1,441	–	7,364
Disposals	(380)	(901)	(1,531)	–	(2,812)
Balance at 31 December 2007 and 1 January 2008	21,475	4,800	5,579	–	31,854
Acquired on acquisition of a subsidiary	109	58	239	–	406
Depreciation for the year	8,831	1,974	1,260	–	12,065
Disposals	(355)	(702)	(113)	–	(1,170)
Balance at 31 December 2008 and 1 January 2009	30,060	6,130	6,965	–	43,155
Depreciation for the year	5,700	2,654	1,764	–	10,118
Disposals	(28)	(64)	(267)	–	(359)
Balance at 31 December 2009 and 1 January 2010	35,732	8,720	8,462	–	52,914
Depreciation for the period	4,646	1,704	1,312	–	7,662
Disposals	–	(201)	(164)	–	(365)
Balance at 30 September 2010	40,378	10,223	9,610	–	60,211
Carrying amount					
At 31 December 2007	47,340	6,514	3,080	–	56,934
At 31 December 2008	46,136	6,946	4,546	–	57,628
At 31 December 2009	50,619	5,472	3,875	19,465	79,431
At 30 September 2010	55,943	4,925	3,148	28,812	92,828

As at 31 December 2007, 2008 and 2009 and 30 September 2010, certain property, plant and equipment with net book value of approximately RMB14,635,000, RMB32,659,000, RMB32,618,000 and RMB14,926,000 respectively were pledged as securities for bank borrowings *(note 22)*.

Shanghai FSY	Buildings and improvements	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
Balance at 1 January 2007	66,518	10,660	8,425	–	85,603
Additions	32	–	944	–	976
Disposals	(1,910)	(1,225)	(1,895)	–	(5,030)
Balance at 31 December 2007 and 1 January 2008	64,640	9,435	7,474	–	81,549
Additions	1,159	1,305	2,048	–	4,512
Disposals	–	(1,232)	(83)	–	(1,315)
Balance at 31 December 2008 and 1 January 2009	65,799	9,508	9,439	–	84,746
Additions	5,207	85	552	19,465	25,309
Disposals	–	(47)	(261)	–	(308)
Balance at 31 December 2009 and 1 January 2010	71,006	9,546	9,730	19,465	109,747
Additions	–	778	253	19,229	20,260
Transfer	9,970	–	–	(9,970)	–
Disposals	–	(143)	–	(24)	(167)
Balance at 30 September 2010	80,976	10,181	9,983	28,700	129,840
Accumulated depreciation and impairment loss					
Balance at 1 January 2007	16,504	3,045	5,104	–	24,653
Depreciation for the year	3,143	1,957	1,303	–	6,403
Disposals	(380)	(711)	(1,497)	–	(2,588)
Balance at 31 December 2007 and 1 January 2008	19,267	4,291	4,910	–	28,468
Depreciation for the year	8,095	1,519	973	–	10,587
Disposals	–	(702)	(84)	–	(786)
Balance at 31 December 2008 and 1 January 2009	27,362	5,108	5,799	–	38,269
Depreciation for the year	4,845	2,045	1,372	–	8,262
Disposals	–	(45)	(251)	–	(296)
Balance at 31 December 2009 and 1 January 2010	32,207	7,108	6,920	–	46,235
Depreciation for the period	3,900	1,166	941	–	6,007
Disposals	–	(135)	–	–	(135)
Balance at 30 September 2010	36,107	8,139	7,861	–	52,107

Shanghai FSY	Buildings and improvements	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount					
At 31 December 2007	45,373	5,144	2,564	–	53,081
At 31 December 2008	38,437	4,400	3,640	–	46,477
At 31 December 2009	38,799	2,438	2,810	19,465	63,512
At 30 September 2010	44,869	2,042	2,122	28,700	77,733

As at 31 December 2007, 31 December 2008 and 31 December 2009 and 30 September 2010, certain property, plant and equipment with net book value of approximately RMB14,635,000, RMB32,659,000, RMB32,618,000 and RMB14,926,000 respectively were pledged as securities for bank borrowings *(note 22)*.

13. CEMENTARY ASSETS

Shanghai FSY Group	Land use right	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January 2007	37,363	3,421	40,784
Additions	12,002	1,642	13,644
Disposal	–	(126)	(126)
Transfer to cost of sales	(9,311)	(1,150)	(10,461)
Carrying amount at 31 December 2007 and 1 January 2008	40,054	3,787	43,841
Additions	56,861	35,976	92,837
Acquisition of a subsidiary *(Note 26)*	124,000	–	124,000
Transfers to cost of sales	(14,402)	(4,844)	(19,246)
Carrying amount at 31 December 2008 and 1 January 2009	206,513	34,919	241,432
Additions	200	11,889	12,089
Transfer to cost of sales	(9,854)	(4,076)	(13,930)
Carrying amount at 31 December 2009 and 1 January 2010	196,859	42,732	239,591
Additions	–	3,721	3,721
Transfers to cost of sales	(8,659)	(3,334)	(11,993)
Carrying amount at 30 September 2010	188,200	43,119	231,319

Shanghai FSY Group planned to develop lands for construction and development of cemetery of RMB15,215,000 in next year ending as at 30 September 2011.

As at 31 December 2008 and 2009 and period ended 30 September 2010, certain cemetery assets with net book value of approximately RMB80,107,000, RMB76,550,000 and RMB74,810,000 respectively were pledged as securities for bank borrowings (note 22). All the bank borrowings were repaid subsequently as at 12 November 2010.

Shanghai FSY	**Land use right**	**Leasehold improvements**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January 2007	37,363	3,421	40,784
Additions	12,002	1,642	13,644
Disposal	–	(126)	(126)
Transfer to cost of sales	(9,311)	(1,150)	(10,461)
Carrying amount at 31 December 2007 and 1 January 2008	40,054	3,787	43,841
Additions	–	2,471	2,471
Transfers to cost of sales	(7,429)	(1,829)	(9,258)
Carrying amount at 31 December 2008 and 1 January 2009	32,625	4,429	37,054
Additions	200	10,400	10,600
Transfer to cost of sales	(5,376)	(2,128)	(7,504)
Carrying amount at 31 December 2009 and 1 January 2010	27,449	12,701	40,150
Additions	–	780	780
Transfers to cost of sales	(3,617)	(1,275)	(4,892)
Carrying amount at 30 September 2010	23,832	12,206	36,038

Shanghai FSY planned to develop lands for construction and development of cemetery of RMB8,839,000 in next year ending as at 30 September 2011.

14. GOODWILL

Shanghai FSY Group		**As at 31 December**		**As at 30 September**
	2007	**2008**	**2009**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Cost	16,486	16,614	16,614	16,614

Goodwill above is allocated to the cash generating units of entities operating in development and construction of cemetery and provision of relevant management services in the PRC. Key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct cost 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 cash generating units. The growth rates are based on 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 Relevant Period, the Shanghai FSY Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets approved by management using applicable discount rates of 17.42%, 17.42%, 17.42% and 17.42% at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 which the management of the Shanghai FSY considered that the rates could reflect current market assessments of the time value of money and the risks specific to the cash generating units. The cash flows were extrapolated using growth rates of 10%, 10%, 10% and 10% based on industry growth forecasts at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010. No impairment loss was considered necessary.

15. INTERESTS IN SUBSIDIARIES

Shanghai FSY	As at 31 December 2007	2008	2009	As at 30 September 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)
Unlisted equity shares, at cost	35,000	91,059	91,059	91,059

Name of entity	Place of establishment/ operation	Proportion of nominal value of issued capital/voting power held by the Shanghai FSY Group — As at 31 December 2007	2008	2009	As at 30 September 2010	Fully paid and registered capital	Principal Activities
重慶安樂服務有限公司 (Chongqing Anle Services Co., Ltd.*) ("Chongqing Anle Service")	PRC	90%	90%	90%	90%	RMB1,000,000	Provision of funeral arrangement services in the PRC
河南福壽園實業有限公司 (Henan Fu Shou Yuan Industry Co., Ltd.*) ("Henan FSY")	PRC	–	55.01%	55.01%	55.01%	RMB30,120,000	Development and construction of cemetery and provision of related management services in the PRC
上海南院實業發展有限公司 (Shanghai Nanyuan Industry Development Co., Ltd.*) ("Shanghai Nanyuan")	PRC	40%#	40%#	40%#	40%#	RMB50,000,000	Development and construction of cemetery and provision of related management services in the PRC

* The English names are for identification purpose only.

Shanghai FSY has the power to govern the financial and operating policies of Shanghai Nanyuan so as to obtain benefits from its activities.

16. INTERESTS IN ASSOCIATES

Shanghai FSY Group	**As at 31 December**			**As at 30 September**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of unlisted investments in associates	2,382	2,382	2,382	2,382
Share of post-acquisition profits, net of dividends received	979	1,042	1,727	5,536
	3,361	3,424	4,109	7,918

Shanghai FSY	**As at 31 December**			**As at 30 September**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of unlisted investment in an associate	2,000	2,000	2,000	2,000
Share of post-acquisition profits, net of dividends received	820	912	1,052	4,261
	2,820	2,912	3,052	6,261

As at 31 December 2007, 31 December 2008 and 31 December 2009 and 30 September 2010, the Shanghai FSY Group had interests in the following principal associates:

Name of entity	**Place of establishment/ operation**	**Proportion of nominal value of issued capital/voting power held by the Shanghai FSY Group**				**Fully paid and registered capital**	**Principal Activities**
		As at 31 December			**As at 30 September**		
		2007	**2008**	**2009**	**2010**		
重慶安樂殯儀服務有限公司 (Chongqing Anle Funeral Services Co., Ltd.*) ("Chongqing Funeral Service")	PRC	20%	20%	20%	20%	RMB1,000,000	Provision of funeral arrangement services in the PRC
合肥大蜀山文化陵園有限公司 (Hefei Dashushan Culture Cemetery Co., Ltd.*) ("Hefei Dashushan")	PRC	20%	20%	20%	20%	RMB1,000,000	Development and construction of cemetery and provision of related management services in the PRC

* The English names are for identification purpose only.

The summarised financial information in respect of the Shanghai FSY Group's associates is set out below:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	42,948	48,401	54,311	63,344
Total liabilities	(26,482)	(31,620)	(34,106)	(24,092)
Net assets	16,466	16,781	20,205	39,252
The Shanghai FSY Group's share of net assets of associates	3,293	3,356	4,041	7,850

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	28,631	38,396	45,049	43,533
Profit for the year	9,806	11,015	13,424	19,047

17. PLEDGED BANK DEPOSITS

As at 31 December 2007, bank deposits pledged to certain banks to secure the bank borrowing amounted to RMB20,000,000. The pledged bank deposits bore interest at effective rate 1.58%.

18. INVENTORIES

	As at 31 December			As at 30 September
Shanghai FSY Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	–	6,214	5,727	6,694
Work in progress	–	–	143	–
Finished goods	20,575	4,090	4,312	3,358
	20,575	10,304	10,182	10,052

	As at 31 December			As at 30 September
Shanghai FSY	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	3,579	3,640	3,805	2,955

19. TRADE AND OTHER RECEIVABLES

Shanghai FSY Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	1,319	3,682	7,367	36
Property rental deposits	198	245	242	248
Prepayment for vendors	15,949	18,747	9,959	926
Amount due from holding company	34,360	43,800	63,300	1,540
Amounts due from shareholders	–	3,350	10,138	–
Amount due from a fellow subsidiary	4,916	11,139	12,076	12,531
Amounts due from associates	4,400	3,144	3,641	75
Amount due from a related company of a shareholder*	8,000	–	–	–
Amount due from a related company	–	1,000	–	–
Amount due from non-controlling interest	45,000	–	–	306
Loan to a related company of non-controlling interest	–	92,000	–	–
Other receivables	5,335	7,123	11,585	2,815
	119,477	184,230	118,308	18,477

* 北京濟豐興業投資管理有限公司上海分公司 ("Beijing Ji Feng") is a related company of a shareholder.

The balances of holding company, shareholders, a fellow subsidiary, associates, a related company of a shareholder, a related company and non-controlling interest at the end of reporting period are unsecured, interest-free and repayable on demand.

Loan to a related company of non-controlling interest represented advance to a related company of non-controlling interest, through a bank as an intermediate which was interest free and repayable in three months under a loan agreement signed by a subsidiary of Shanghai FSY, a related company of non-controlling interest and a bank.

Shanghai FSY	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	1,196	3,682	7,367	36
Property rental deposits	191	221	221	224
Prepayment for vendors	1,999	18,631	8,227	338
Amount due from holding company	34,360	43,800	63,300	1,540
Amount due from shareholders	–	3,350	10,000	–
Amount due from a fellow subsidiary	3,887	11,139	12,076	12,531
Amounts due from subsidiaries	450	1,557	12,460	2,726
Amounts due from associates	4,400	2,140	3,635	75
Amount due from a related company of shareholder*	8,000	–	–	–
Other receivables	4,944	4,314	12,475	1,848
	59,427	88,834	129,761	19,318

The balances of holding company, shareholders, a fellow subsidiary, associates, a related company of a shareholder, subsidiaries and non-controlling interest at the end of reporting period are unsecured, interest-free and repayable on demand.

Shanghai FSY Group do not offer credit term to its customers. The following aged analysis of accounts receivables (net of allowance for doubtful debts) presented based on the recognized sales date and are past due but not impaired at the end of the reporting period are as follows:

				As at
		As at 31 December		**30 September**
Shanghai FSY Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	1,298	3,653	7,338	36
90 days to 180 days	21	29	29	–
	1,319	3,682	7,367	36

				As at
		As at 31 December		**30 September**
Shanghai FSY	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	1,196	3,653	7,338	36
90 days to 180 days	–	29	29	–
	1,196	3,682	7,367	36

Shanghai FSY Group does not hold any collateral over these balances. No interest is charged on trade and bills receivables. Provision against trade and bills receivables is made individually, based on recoverable amounts estimated by making reference to subsequent settlement, past default experience and objective evidence.

The Shanghai FSY Group and Shanghai FSY recognised impairment loss on individual assessment based on the accounting policy stated in *Note 3(l)(ii)*. Shanghai FSY Group and Shanghai FSY has not provided for impairment loss as these past due debts were subsequently collected as of the date of this report.

20. FINANCIAL ASSETS HELD FOR TRADING

				As at
		As at 31 December		**30 September**
Shanghai FSY Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment fund at fair value	–	100	100	100

21. TRADE AND OTHER PAYABLES

Current

Shanghai FSY Group	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	11,890	10,809	9,940	13,093
Receipts in advance	36,325	13,857	33,327	23,543
Amount due to shareholders	1,037	3,086	3,890	1,423
Loan from a shareholder	33,742	50,888	62,588	–
Amount due to holding company	18,626	21,981	30,817	–
Amount due to non-controlling interests	442	94,000	–	100
Payroll and welfare payables	498	386	976	155
Accruals	31,287	24,728	36,971	38,130
Amounts due to directors	8,310	8,310	9,401	13,046
Other payables	5,286	6,009	6,304	1,706
	147,443	234,054	194,214	91,196

The balances of shareholder, holding company, and non-controlling interest at the end of reporting period are unsecured, interest-free and repayable on demand.

Loan from a shareholder is unsecured and repayable within one year at interest rate of 2.56% to 3.87% per annum.

Current

Shanghai FSY	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,798	1,032	6,197	7,713
Receipts in advance	13,513	10,457	20,259	18,763
Amount due to shareholder	1,037	2,686	3,490	1,423
Loan from a shareholder	33,742	50,888	62,588	–
Amount due to holding company	18,626	21,981	30,817	–
Amounts due to subsidiaries	5,000	9,425	16,391	4,205
Payroll and welfare payables	265	116	22	61
Accruals	30,548	19,760	30,965	25,614
Amounts due to directors	8,310	8,310	9,401	12,219
Other payables	1,927	3,177	1,720	686
	115,766	127,832	181,850	70,684

The balances of shareholder, holding company and subsidiaries at the end of reporting period are unsecured, interest-free and repayable on demand.

Loan from a shareholder is unsecured and repayable within one year at interest rate of 2.56% to 3.87% per annum.

Non-current

Shanghai FSY Group and Shanghai FSY	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders	–	–	–	53,918

The balances with shareholders at the end of the reporting period are unsecured, interest-free and not repayable within one year.

The aged analysis of the trade payables of the Shanghai FSY Group and Shanghai FSY presented based on the invoice date as at the end of each reporting period are as follows:

Shanghai FSY Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	3,045	1,453	6,740	2,266
91 to 180 days	–	–	–	875
181 to 365 days	8,845	6,383	2,976	7,314
Over 1 year	–	2,973	224	2,638
	11,890	10,809	9,940	13,093

Shanghai FSY	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	2,798	1,032	6,197	1,064
91 to 180 days	–	–	–	744
181 to 365 days	–	–	–	5,509
Over 1 year	–	–	–	395
	2,798	1,032	6,197	7,712

22. BANK BORROWINGS

Shanghai FSY Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured – Bank loan	33,000	60,000	49,950	29,950

At each of the reporting period end, total current and non-current bank loans and overdraft and other borrowings were payable as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
On demand or within one year	33,000	35,000	29,950	29,950
More than one year, but not exceeding two years	–	5,000	20,000	–
More than two year, but not exceeding five years	–	20,000	–	–
	33,000	60,000	49,950	29,950
Amount due within one year included in current liabilities	33,000	35,000	29,950	29,950
	–	25,000	20,000	–

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, bank borrowings of approximately RMB33,000,000, RMB35,000,000, RMB29,950,000 and RMB19,950,000 respectively were secured by pledge of property, plant and equipment *(Note 12)* and bank deposits.

As at 31 December 2008, 31 December 2009 and 30 September 2010, bank borrowings of approximately RMB25,000,000, RMB20,000,000 and RMB10,000,000 respectively were secured by pledge of cemetery assets (Note 13).

The range of effective interest rates (which are also equal to contracted interest rates) of Shanghai FSY Group are as follows:

	Year ended 31 December			Nine months ended 30 September
Effective interest rate	**2007**	**2008**	**2009**	**2010**
Fixed-rate borrowings	6.138% to 7.452%	6.435% to 7.47%	5.31% to 7.47%	5.31% to 6.80%

	As at 31 December			As at 30 September
Shanghai FSY	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured – Bank loan	33,000	35,000	29,950	19,950

At each of the reporting period end, total current bank loans and overdraft and other borrowings were payable on demand or within one year.

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, bank borrowings of approximately RMB33,000,000, RMB35,000,000, RMB29,950,000 and RMB19,950,000 respectively were secured by pledge of property, plant and equipment (Note 12) and bank deposits.

The range of effective interest rates (which are also equal to contracted interest rates) of Shanghai FSY are as follows:

				Nine months Ended
	Year ended 31 December			30 September
Effective interest rate	**2007**	**2008**	**2009**	**2010**
Fixed-rate borrowings	6.14% to 7.45%	6.44% to 7.47%	4.78% to 5.31%	5.31%

23. PAID IN CAPITAL

				As at
	As at 31 December			30 September
Shanghai FSY	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered, issued and fully paid				
Balance at beginning and end of the year/period	30,000	30,000	30,000	30,000

24. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

				As at
	As at 31 December			30 September
Shanghai FSY Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	1,907	1,657	1,567	1,342
Deferred tax liabilities	–	(27,830)	(27,407)	(26,762)
	1,907	(26,173)	(25,840)	(25,420)

Details of the deferred tax liabilities and assets recognized and movements during the Relevant Periods:

Shanghai FSY Group

Assets	**Depreciation allowance**	**Tax losses**	**Deferred revenue**	**Fair value adjustment on business combination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	111	–	–	–	111
Credit to profit or loss for the year	23	–	1,656	–	1,679
Tax effect arising from change in applicable tax rates	(27)	–	144	–	117
At 31 December 2007	107	–	1,800	–	1,907
Recognition at acquisition of a subsidiary	–	1,063	–	(28,030)	(26,967)
(Charge)/credit to profit or loss for the year	23	464	(1,800)	200	(1,113)
At 31 December 2008	130	1,527	–	(27,830)	(26,173)
(Charge)/credit to profit or loss for the year	23	(113)	–	423	333
At 31 December 2009	153	1,414	–	(27,407)	(25,840)
Credit/(charge) to profit or loss for the period	10	(174)	–	645	481
Effect of change in tax rate	(61)	–	–	–	(61)
At 30 September 2010	102	1,240	–	(26,762)	(25,420)

The net operating loss attributable to the subsidiary located in PRC can only be carried forward for a maximum period of five years. The expiration period of unused tax losses is as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2009	–	259	36	–
2010	–	487	1,900	1,900
2011	–	1,900	728	728
2012	–	728	2,995	2,995
2013	–	2,995	–	–
2014	–	–	–	1,150
	–	6,369	5,659	6,773

25. LEASES

Shanghai FSY Group

Operating leases – lessee

Shanghai FSY leases certain operating lease arrangements relating to office with lease terms ranging from one to five years. The lease payments recognised as an expenses are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Minimum lease payments	1,976	2,946	2,749	1,806	2,101

The total future minimum lease payments are due as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Not later than one year	2,946	2,749	2,687	920	75
Later than one year and not later than five years	–	–	–	–	3,211
	2,946	2,749	2,687	920	3,286

Shanghai FSY

Operating leases – lessee

Shanghai FSY leases certain operating lease arrangements relating to stores, office and factory buildings with lease terms ranging from one to five years. The lease payments recognised as an expenses are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Minimum lease payments	1,965	2,761	2,546	1,614	1,845

The total future minimum lease payments are due as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Not later than one year	2,761	2,546	2,440	920	–
Later than one year and not later than five years	–	–	–	–	3,211
	2,946	2,749	2,687	920	3,211

26. ACQUISITION OF A SUBSIDIARY

On 4 March 2008, Shanghai FSY acquired 55% of the equity interests and obtained control in an entity, Henan Fu Shou Yuan Industry Co., Ltd., for a consideration of approximately RMB55,558,602. Henan FSY is engaged in development and construction of cemetery and provision of related management services in the PRC. As a result of acquisition, Shanghai FSY Group will extend business to Henan. The acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	Carrying amount before combination	Fair value adjustment	Fair value
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	5,603	1,071	6,674
Cemetery assets	12,954	111,046	124,000
Inventories	387	–	387
Trade and other receivables	1,156	–	1,156
Cash and cash equivalents	10,237	–	10,237
Trade and other payables	(8,197)	–	(8,197)
Deferred tax liabilities	–	(28,030)	(28,030)
	22,140	84,087	106,227
Share of net assets of non-controlling interests			(47,802)
			58,425
Total consideration satisfied by cash			55,559
Bargain gain on acquisition of a subsidiary			2,866
Net cash outflow arising on acquisition:			
Cash consideration			55,559
Cash and cash equivalents acquired			10,237
			45,322

The entity acquired contributed approximately RMB1,295,594 to the Shanghai FSY Group's loss for the period between the date of acquisition and 31 December 2008.

If the acquisition had been completed on 1 January 2008, the total turnover for the year of Shanghai FSY would have been increased by RMB3,482,096, and profit for the year would have been decreased by RMB1,392,513. The pro-forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of Shanghai FSY that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

27. RESERVES

Shanghai FSY	Share capital *RM'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2007	30,000	22,500	5,000	30,087	87,587
Total comprehensive income for the year	–	–	–	45,137	45,137
Dividends	–	–	–	(46,367)	(46,367)
Balance at 31 December 2007 and 1 January 2008	30,000	22,500	5,000	28,857	86,357
Total comprehensive income for the year	–	–	–	47,092	47,092
Dividends	–	–	–	(40,903)	(40,903)
Balance at 31 December 2008 and 1 January 2009	30,000	22,500	5,000	35,046	92,546
Total comprehensive income for the year	–	–	–	74,811	74,811
Dividends	–	–	–	(69,136)	(69,136)
Balance at 31 December 2009 and 1 January 2010	30,000	22,500	5,000	40,721	98,221
Total comprehensive income for the year	–	–	–	60,820	60,820
Dividends	–	–	–	(72,405)	(72,405)
Balance at 30 September 2010	30,000	22,500	5,000	29,136	86,636

28. RELATED PARTY TRANSACTIONS

(a) Related parties of Shanghai FSY

During the Relevant Period, for the purpose of this report, the directors are of the view that the following parties are related parties of Shanghai FSY Group:

Name of related parties	Relationship
中國中福實業有限公司 (China Zhongfu Industrial Co., Ltd.)	Holding company
安徽安合投資諮詢有限公司 (Anhui Anhe Investment Company Limited*)	Shareholder
上海眾福國際貿易有限公司 (Shanghai Zhongfu International Trading Co., Ltd.*)	Shareholder
山東福壽園發展有限公司 (Shandong Fu Shou Yuan Development Co., Ltd.*)	Fellow subsidiary
上海福壽園集團公司企業諮詢公司 (Shanghai Fu Shou Consulting & Management Company Limited*)	A director, Wang Ji Sheng, held 30% registered capital.

* The English names are for identification purpose only.

(b) Transactions with related parties

In addition to the information disclosed in note 8, significant related party transactions between the Shanghai FSY and its related parties during the financial years were as follows:

		Transaction amount				
Related party relationship	Type of transaction	For the year ended 31 December			Nine months ended 30 September	
		2007	**2008**	**2009**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Shareholder	Interest expenses	1,037	1,304	2,019	1,514	–

At 31 December 2007, Shanghai FSY Group issued financial guarantee with limit of US$6,800,000 to the holding company in respect of banking facilities of the holding company amounted to US$8,000,000 at the end of reporting period.

In the opinion of the directors of Shanghai FSY Group, the financial guarantee contracts did not have material impact to the consolidated results and financial position of Shanghai FSY Group.

In the opinion of the directors, no material liabilities will arise from the above corporate guarantee which arose in the ordinary course of the business and the fair value of the guarantee granted by Shanghai FSY Group is insignificant.

(c) Compensation of key management personnel

Remuneration of key management personnel of the Shanghai FSY Group, including certain amounts paid or payable to the Shanghai FSY's directors as disclosed in note 9 to the Financial Information, during the Relevant Periods is as follows:

	For the year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Salaries and other short-term employee benefits	106	480	480	360	360
– Contribution to defined contributions plans	29	29	29	42	42
	135	509	509	462	462

29. CAPITAL RISK MANAGEMENT

The Shanghai FSY Group and Shanghai FSY manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Shanghai FSY Group and Shanghai FSY's overall strategy remains unchanged for the Relevant Period.

The capital structure of the Shanghai FSY Group and Shanghai FSY consists of restricted cash, cash and cash equivalents, borrowings and equity attributable to shareholders of Shanghai FSY, comprising issued share capital, reserves and retained profits.

The directors of Shanghai FSY review the capital structure regularly. Shanghai FSY Group and Shanghai FSY considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as raising of new debt or the repayment of existing debt.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Categories of financial instruments

				As at
		As at 31 December		30 September
Shanghai FSY Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Assets				
Financial assets at fair value through profit or loss	–	100	100	100
Loans and receivables:				
– Trade and other receivables	103,528	165,483	108,349	18,477
– Pledged bank deposit	20,000	–	–	–
– Cash and cash equivalents	66,174	47,432	74,654	122,455
	189,702	213,015	183,103	140,106

				As at
		As at 31 December		30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Liabilities				
Amortised costs:				
– Trade and other payables	111,118	220,197	160,887	67,653
– Bank borrowings	33,000	60,000	49,950	29,950
– Amount to shareholders	–	–	–	53,918
	144,118	280,197	210,837	151,521

Shanghai FSY	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Assets				
Loans and receivables:				
– Trade and other receivables	57,428	70,203	137,988	18,980
– Pledged bank deposit	20,000	–	–	–
– Cash and cash equivalents	60,183	36,812	49,956	81,652
	137,611	107,015	187,944	100,632

	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Liabilities				
Amortised costs:				
– Trade and other payables	102,253	117,375	161,591	51,921
– Borrowings	33,000	35,000	29,950	53,918
	135,253	152,375	191,541	105,839

II. Financial risk management and objective

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Shanghai FSY Group's business. The main risks arising from Shanghai FSY's financial instruments in the normal course of the Shanghai Fu Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Interest rate risk

The Shanghai FSY Group and Shanghai FSY are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2007, the short-term bank borrowings of the Shanghai FSY Group and Shanghai FSY were carried at floating interest rates, and therefore were exposed to cash flow interest rate risks.

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, the profits of for the year and retained profits of Shanghai FSY Group would have increased/decreased by approximately RMB330,000, RMB600,000, RMB499,500 and RMB299,500 respectively the profits of for the year and retained profits of Shanghai FSY would have increased/ decreased by approximately RMB330,000, RMB350,000, RMB299,500 and RMB199,500 respectively. Other components of equity would not have been affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Shanghai FSY Group and Shanghai FSY's profit for the year and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Period.

(b) Currency risk

Currency risk to the Shanghai FSY Group is minimal as most of the transactions of the Shanghai FSY Group and Shanghai FSY are carried out in functional currency.

(c) Liquidity risk

Shanghai FSY Group entities are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by board of Shanghai FSY when the borrowing exceeds certain predetermined levels of authority. The policy of Shanghai FSY Group is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The contractual maturities of non-derivative financial liabilities are shown as below:

Shanghai FSY Group	Weighted Average Interest rate	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007						
Trade and other payables	0.93	111,118	111,118	111,118	–	–
Borrowings	3.5	33,000	33,343	33,343	–	–
		144,118	144,461	144,461	–	–
At 31 December 2008						
Trade and other payables	0.59	220,197	220,197	220,197	–	–
Borrowings	6	60,000	64,967	37,399	6,602	20,966
		280,197	285,164	257,596	6,602	20,966
At 31 December 2009						
Trade and other payables		160,887	160,887	160,887	–	–
Borrowings	5.44	49,950	52,755	31,789	20,966	–
		210,837	213,642	192,676	20,966	–
At 30 September 2010						
Trade and other payables		67,653	67,653	67,653	–	–
Borrowings	5.81	29,950	31,112	31,112	–	–
Amount due to shareholders		53,918	53,918	–	53,918	–
		151,521	152,683	98,765	53,918	–

The amounts included above for financial guarantee contracts are the maximum amounts Shanghai FSY Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, Shanghai FSY Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Shanghai FSY	Weighted Average Interest rate	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007					
Trade and other payables	1.01	102,253	102,253	102,253	–
Borrowings	3.5	33,000	33,343	33,343	–
		135,253	135,596	135,596	–
At 31 December 2008					
Trade and other payables	1.11	117,375	117,375	117,375	–
Borrowings	5.42	35,000	35,698	35,698	–
		152,375	153,073	153,073	–
At 31 December 2009					
Trade and other payables	1.25	161,591	161,591	161,591	–
Borrowings	4.53	29,950	30,428	30,428	–
		191,541	192,019	192,019	–
At 30 September 2010					
Trade and other payables		51,921	51,921	51,921	–
Borrowings	5.31	19,950	20,458	20,458	–
Amount due to shareholders		53,918	53,918	–	53,918
		125,789	126,297	72,379	53,918

The amounts included above for financial guarantee contracts are the maximum amounts Shanghai FSY could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, Shanghai FSY considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(d) ***Credit risk***

The credit risk of Shanghai FSY Group is primarily attributable to cash and bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The cash and bank deposits of Shanghai FSY Group are placed with major financial institutions.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer pertaining to the economic environment in which the customer operates.

At the end of reporting period, Shanghai FSY Group did not have concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. Shanghai FSY Group does not provide any guarantees which would expose to credit risk.

(e) ***Fair value***

The directors of Shanghai FSY consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

31. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulation in PRC, Shanghai FSY Group participates in a defined contribution pension scheme ("the Scheme") administered by the provincial government, in respect of employees of Shanghai FSY Group, whereby Shanghai FSY Group are required to make contributions to the Scheme at a rate of a percentage of the eligible employees' salaries and wages to the Scheme. Shanghai FSY Group remits pension fund to contribution to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds.

The total costs recognised in profit or loss for year ended 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 were RMB4,479,829, RMB6,238,878, RMB7,115,746 and RMB6,059,818 respectively which represents contributions to the scheme by Shanghai FSY Group at rates specified in the rules of the scheme.

32. RESERVES

(a) Statutory reserves

In accordance with the PRC Company Law, Shanghai FSY and its subsidiary registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilized to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

(b) Distributable reserves of Shanghai FSY

In accordance with the Articles of Association of the Shanghai FSY, the accumulated profits for the purpose of profit distribution will be deemed to be the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP").

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for Shanghai FSY Group in respect of any period subsequent to 31 December 2009.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, regarding the financial information of Hefei Dashushan Group for the three years ended 31 December 2009 and the nine months ended 30 September 2010.

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

23 February 2011

The Board of Directors
China Healthcare Holdings Limited
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 合肥大蜀山文化陵園有限公司 (Hefei Dashushan Culture Cemetery Co., Ltd.) ("Hefei Dashushan") and its subsidiaries (hereinafter collectively referred to as the "Hefei Dashushan Group") for each of the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the "Relevant Periods") and the comparative financial information of Hefei Dashushan Group for the nine months ended 30 September 2009 (the "2009 Comparative Information"), prepared for inclusion in the circular of China Healthcare Holdings Limited ("China Healthcare") (together with its subsidiaries referred to as the "Group") dated 23 February 2011 (the "Circular") in connection with the proposed acquisition of 100% equity interest in Hefei Dashushan (the "Acquisition II").

Hefei Dashushan was established as a limited company in the People's Republic of China (the "PRC") on 22 February 2002 and is engaged in development and construction of cemetery and provision of funeral arrangement services in the PRC.

Particulars of Hefei Dashushan's subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of company	Place and date of incorporation/ establishment	Fully paid and registered capital as at the date of this report	Attributable equity interest directly held by Hefei Dashushan as at 31 December 2007	2008	2009	30 September 2010	the date of report	Principal activity
合肥人本殯儀服務有限公司(Hefei Ren Ben Funeral Services Co., Ltd.*) ("Hefei Renben")	PRC 27 September 2008	RMB1,200,000	–	100%	100%	100%	100%	Provision of funeral products, flowers service arrangement and consultation in the PRC
合肥花之間有限公司 (Hejei Huazhijian Co., Ltd.*) ("Hefei Huazhijian")	PRC 13 May 2010	RMB500,000	–	–	–	100%	100%	Retail and whole of flowers and artist flowers, interior design, window display design and gardening

* The English names are for identification purpose only.

The statutory financial statements of Hefei Dashushan and its subsidiaries for the three years ended 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of company	Financial period	Statutory auditors
Hefei Dashushan	Year ended 31 December 2007	安徽安瑞會計師事務所 Anrui (Anhui) Certified Public Accountant
	Years ended 31 December 2008 and 2009	立信會計師事務所有限公司 BDO China Shu Lun Pan Certified Public Accountants
Hefei Renben	Year ended 31 December 2009	立信會計師事務所有限公司 BDO China Shu Lun Pan Certified Public Accountants

No statutory audited financial statements have been prepared for these entities in respect of any period subsequent to 31 December 2009.

BASIS OF PREPARATION

For the purpose of this report, the directors of Hefei Dashushan have prepared the consolidated financial statements of the Hefei Dashushan Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), including Hong Kong Accounting Standards ("HKASs") and Interpretation, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited ("Listing Rules"). The Underlying Financial Statements for each of three years ended 31 December 2009 and the nine months ended 30 September 2010 were audited by BDO Limited, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Relevant Periods (the "Financial Information") has been prepared based on Underlying Financial Statements or, where appropriate, unaudited financial statements of Hefei Dashushan and its subsidiaries now comprising the Hefei Dashushan Group, on the basis set out in Note 1 below whereas no adjustment are considered necessary.

For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by HKICPA.

DIRECTORS' RESPONSIBILITY

The directors of Hefei Dashushan are responsible for the preparation and the true and fair view of the Financial Information in accordance with HKFRSs and the applicable disclosure requirement of the Listing Rules, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

In respect of the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards of Auditing and the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

In respect of the 2009 Comparative Information, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We concluded our review in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim financial information Performed by the Independent Auditor on the Entity". A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of the 2009 Comparative Information is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Hefei Dashushan Group as at 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010, and of its results and cash flows for the Relevant Periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Comparative Information for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

A. FINANCIAL INFORMATION

1. Consolidated Statements of Comprehensive Income

		For the year ended 31 December			For the nine months ended 30 September	
		2007	**2008**	**2009**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*4*	20,791	27,488	32,977	26,101	32,549
Cost of sales		(4,831)	(4,972)	(7,594)	(7,524)	(5,066)
Gross profit		15,960	22,516	25,383	18,577	27,483
Other gains and losses	*5*	2,268	526	849	491	758
Selling expenses		(2,017)	(2,427)	(4,147)	(3,095)	(4,163)
Administrative expenses		(5,588)	(6,540)	(7,801)	(2,438)	(2,686)
Profit before income tax	*6*	10,623	14,075	14,284	13,535	21,392
Income tax expense	*9*	(2,240)	(2,912)	(3,584)	(3,574)	(5,347)
Profit and total comprehensive income for the year/period		8,383	11,163	10,700	9,961	16,045

2. Consolidated Statements of Financial Position

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	8,043	8,268	7,777	7,537
Current assets					
Cemetery assets	*11*	6,855	5,744	4,954	4,182
Inventories	*13*	470	478	594	706
Other receivables		48	249	143	235
Financial assets held for trading	*14*	–	–	115	166
Cash and cash equivalents		20,135	27,731	32,400	38,438
Total current assets		27,508	34,202	38,206	43,727
Current liabilities					
Trade and other payables	*15*	17,457	22,473	23,864	10,214
Deferred revenue		137	188	249	1,104
Income tax payable		866	1,198	1,680	3,902
Total current liabilities		18,460	23,859	25,793	15,220
Net current assets		9,048	10,343	12,413	28,507
Total assets less current liabilities		17,091	18,611	20,190	36,044
Non-current liabilities					
Deferred revenue		2,992	4,049	4,928	4,737
TOTAL NET ASSETS		14,099	14,562	15,262	31,307
Capital and reserves					
Paid in capital	*16*	10,000	10,000	10,000	10,000
PRC statutory reserve	*20*	4,027	5,000	5,000	5,000
Retained earnings		72	(438)	262	16,307
EQUITY		14,099	14,562	15,262	31,307

3. Statements of Financial Position of Hefei Dashushan

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	8,043	7,976	7,324	7,112
Interest in subsidiaries	*12*	–	1,200	1,200	1,700
Total non-current assets		8,043	9,176	8,524	8,812
Current assets					
Cemetery assets	*11*	6,855	5,744	4,954	4,182
Inventories	*13*	470	423	417	587
Financial assets held for trading	*14*	–	–	115	72
Other receivables		48	244	118	9,135
Cash and cash equivalents		20,135	26,448	29,809	25,169
Total current assets		27,508	32,859	35,413	39,145
Current liabilities					
Trade and other payables	*15*	17,457	22,087	22,560	8,694
Deferred revenue		137	188	249	1,104
Income tax payable		866	1,199	1,637	3,855
Total current liabilities		18,460	23,474	24,446	13,653
Net current assets		9,048	9,385	10,967	25,492
Total assets less current liabilities		17,091	18,561	19,491	34,304
Non-current liabilities					
Deferred revenue		2,992	4,049	4,929	4,737
TOTAL NET ASSETS		14,099	14,512	14,562	29,567
Capital and reserves					
Paid in capital	*16*	10,000	10,000	10,000	10,000
PRC statutory reserve	*20*	4,027	5,000	5,000	5,000
Retained earnings		72	(488)	(438)	14,567
Equity		14,099	14,512	14,562	29,567

4. Consolidated Statements of Changes in Equity

	Paid in capital	PRC statutory reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007	10,000	3,189	(473)	12,716
Total comprehensive income for the year	–	–	8,383	8,383
Transfer to statutory reserve	–	838	(838)	–
Dividends	–	–	(7,000)	(7,000)
Balance at 31 December 2007 and 1 January 2008	10,000	4,027	72	14,099
Total comprehensive income for the year	–	–	11,163	11,163
Transfer to statutory reserve	–	973	(973)	–
Dividends	–	–	(10,700)	(10,700)
Balance at 31 December 2008 and 1 January 2009	10,000	5,000	(438)	14,562
Total comprehensive income for the year			10,700	10,700
Dividends	–	–	(10,000)	(10,000)
Balance at 31 December 2009 and 1 January 2010	10,000	5,000	262	15,262
Total comprehensive income for the period	–	–	16,045	16,045
Balance at 30 September 2010	10,000	5,000	16,307	31,307
(Unaudited)				
Balance at 1 January 2009	10,000	5,000	(438)	14,562
Total comprehensive income for the period	–	–	9,961	9,961
Balance at 30 September 2009 (unaudited)	10,000	5,000	9,523	24,523

5. Consolidated Statements of Cash Flows

	For the year ended 31 December			For the nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from operating activities					
Profit before income tax	10,623	14,075	14,284	13,535	21,392
Adjustments for:					
Depreciation of property, plant and equipment	770	694	878	723	731
Loss on disposal of property, plant and equipment, net	1	–	–	–	–
Fair value gain on financial assets held for trading	(2,092)	(376)	(327)	(134)	(503)
Interest income	(172)	(224)	(500)	(337)	(253)
Operating profit before changes in working capital	9,130	14,169	14,335	13,787	21,367
Changes in working capital:					
Decrease/(increase) in inventories	106	(8)	(116)	(66)	(112)
Decrease in cemetery assets	808	1,111	790	635	772
Decrease/(increase) in other receivables	42	(201)	106	(76)	(92)
(Decrease)/increase in trade and other payables	(4,185)	1,315	2,089	(597)	(3,650)
Increase in deferred revenue	726	1,108	940	673	664
	6,627	17,494	18,144	14,356	18,949
Cash generated from operations					
Interest income	172	224	500	337	253
Income tax paid	(1,890)	(2,579)	(3,101)	(2,564)	(3,125)
Net cash generated from operating activities	4,909	15,139	15,543	12,129	16,077

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment	–	–	–	–	9
Proceeds from disposal of financial assets held for trading	4,918	1,084	1,103	432	3,304
Purchase of property, plant and equipment	(453)	(919)	(387)	(274)	(500)
Investment in financial assets held for trading	(2,637)	(708)	(890)	(382)	(2,852)
Net cash generated from/(used) in investing activities	1,828	(543)	(174)	(224)	(39)
Cash flows from financing activities					
Dividends paid	–	(7,000)	(10,700)	(6,420)	(10,000)
Net cash used in financing activities	–	(7,000)	(10,700)	(6,420)	(10,000)
Net increase in cash and cash equivalents	6,737	7,596	4,669	5,485	6,038
Cash and cash equivalents at beginning of the year/period	13,398	20,135	27,731	27,731	32,400
Cash and cash equivalents at end of the year/period, comprising bank balances and cash	20,135	27,731	32,400	33,216	38,438

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Hefei Dashushan is a limited liability company established in the PRC on 22 February 2002. Hefei Dashushan and its subsidiaries' principal activities are development and construction of cemetery and provision of related services in the PRC. The principal place of business of Hefei Dashushan is situated at Dashushan, Hefei, Anhui.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Hefei Dashushan Group has consistently adopted Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and the related Interpretations ("HK(IFRIC)-Int"), which are effective for the accounting period beginning on January 1, 2010. throughout the Relevant Periods.

At the date of this report, Hefei Dashushan Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures, except for the partial exemption from the disclosure requirements for government related entities[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exception from Comparative HKFRS 7 disclosure for Fist-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial instruments[7]
HKFRIC-INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HKFRIC-INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Hefei Dashushan Group's financial assets.

The amendments to IFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets, allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The directors of Hefei Dashushan Group anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Hefei Dashushan Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs"), which collective terms includes Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional, presentation currency

The Financial Information are presented in Renminbi ("RMB"), which is the functional currency of Hefei Dashushan.

(d) Basis of consolidation

The Financial Information comprises the financial statements of Hefei Dashushan and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full on consolidation.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Non-controlling interests in subsidiaries are identified separately from the Heifei Dashushan's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Changes in Hefei Dashushan's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of Hefei Dashushan Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Hefei Dashushan.

When Hefei Dashushan loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly-controlled entity.

(e) Subsidiaries

A subsidiary is an entity over which Hefei Dashushan is able to exercise control. Control is achieved where Hefei Dashushan, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In Hefei Dashushan's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by Hefei Dashushan on the basis of dividend received and receivable.

(f) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hefei Dashushan Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	14 to 36 years or over the terms of the leases, whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years
Other equipments	5 to 8 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit and loss on disposal.

(g) Cemetery assets

Cemetery assets represent cost of land use right and related improvement that are directly attributable to development and construction of cemetery, are carried at costs less any accumulated impairment losses. Cemetery assets are transferred to costs of sales when they are sold.

(h) Financial instruments

(i) Financial assets

Hefei Dashushan Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Loans and receivables are initially recognised fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method, less any identified impairment losses unless the effects of discounting would be immaterial, in which case, they are stated at cost.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(ii) Impairment loss on financial assets – loans and receivables

Hefei Dashushan Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Financial liabilities

Financial liabilities include borrowings, trade payables and other liabilities. They are initially recognised at fair value net off directly attributable transaction costs and subsequently measured at amortised cost using effective interest method, unless the effects of discounting is immaterial, in which case, they are stated at cost. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit and loss when the liabilities are derecognised as well as through the amortisation process.

(ii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iii) Equity instruments

Equity instruments issued by Hefei Dashushan Group are recorded at the proceeds received, net of direct issue costs.

(iv) Derecognition

Hefei Dashushan Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

A conveyance of the right to use grave plots and niches for cremation urns is recognised as a sale of the grave plots and niches for cremation urns when Hefei Dashushan Group has transferred to the customers the right to use the grave plots and niches for cremation urns upon the execution of a binding agreement.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Hefei Dashushan and its subsidiaries incorporated in the PRC makes monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised as an expense in profit or loss as employees render services during the year, except to the extent that they are included in the cost of inventories not yet recognised as an expense. Hefei Dashushan Group's obligations under these plans are limited to the fixed percentage contributions payable.

(m) Impairment of other assets

At the end of each reporting period, Hefei Dashushan Group reviews the carrying amounts of property, plant and equipment and cemetery assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Hefei Dashushan Group have a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Provisions are not recognised for future operating losses.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. REVENUE

The principal activities of Hefei Dashushan are development and construction of cemetery in PRC. Revenue represents the net amounts received and receivable for grave plots, niches for cremation urns and tomb sets sold less returns and discounts and other sales taxes.

5. OTHER GAINS AND LOSSES

An analysis of other gains and losses are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fair value gain on financial assets held for trading	2,092	376	327	134	503
Interest income	172	224	500	337	253
Others	4	(74)	22	20	2
	2,268	526	849	491	758

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Carrying amount of inventories sold	3,733	3,861	6,634	6,719	4,281
Costs of cemetery assets recognised as cost of sales	1,098	1,111	960	805	785
Staff costs (including directors' and supervisors' remuneration)					
– Basic salaries, housing and other allowances and benefits in kind	2,419	2,967	3,330	2,888	3,707
– Defined contribution pension cost	155	160	160	159	204
Auditors' remuneration	50	40	60	–	–

7. DIRECTORS' EMOLUMENTS

Details of directors' emoluments during the Relevant Periods are as follows:

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2007			
Executive directors:			
He Xian Shun	–	–	–
Zheng Yong	–	–	–
Tan Li An	–	–	–
Wang Ji Sheng	–	–	–
Wang Qiong	117	24	141
Wang Ru Ping	–	–	–
	117	24	141

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2008			
Executive directors:			
Zhang Ji Xin	–	–	–
Tan Li An	–	–	–
Wang Ji Sheng	–	–	–
Wang Qiong	117	22	139
Wang Ru Ping	–	–	–
	117	22	139

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2009			
Executive directors:			
Zhang Ji Xin	–	–	–
Tan Li An	–	–	–
Wang Ji Sheng	–	–	–
Wang Qiong	117	20	137
Wang Ru Ping	–	–	–
	117	20	137

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 30 September 2009			
Executive directors:			
Zhang Ji Xin	–	–	–
Tan Li An	–	–	–
Wang Ji Sheng	–	–	–
Wang Qiong	88	15	103
Wang Ru Ping	–	–	–
	88	15	103

	Basic salaries, housing and other allowances and benefits in kind	Defined contribution pension cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 30 September 2010			
Executive directors:			
Sun Dong Mei	–	–	–
Zhang Ji Xin	–	–	–
Tan Li An	–	–	–
Wang Ji Sheng	–	–	–
Wang Qiong	88	15	108
	88	15	108

None of the directors and supervisors received compensation for the loss of office as a director or a supervisor of Hefei Dashushan Group and Hefei Dashushan in connection with the management of the affairs for the Relevant Periods.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of Hefei Dashushan Group, none (2009: nil; 2008: nil; 2007: nil) are director of Hefei Dashushan Group whose emoluments are included in Note 10 above. The emoluments of the individuals are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	1,408	1,798	1,982	293	403
Contribution to retirement benefit scheme	66	64	71	43	58
	1,474	1,862	2,053	336	461

The remuneration of the highest paid, non-director employee fell within the range of nil to RMB1,000,000.

9. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax – PRC Enterprise Income Tax ("EIT")					
Income tax expense	2,240	2,912	3,584	3,574	5,347

Taxation is calculated at the rates of tax prevailing in the countries in which Hefei Dashushan operates, based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("New Tax Law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008. The State Council of the PRC issued the Implementation Rules of the Enterprise Income tax law ("Implementation Rules") on 6 December 2007 and GuoFa (2007) No. 39 Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Law Policies ("Circular 39") on 26 December 2007. Hefei Dashushan is subject to tax rate of 25% from 2008 onwards.

A reconciliation between income tax expense and profit before income tax at applicable tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax	10,623	14,075	14,284	13,535	17,698
Tax at applicable statutory tax rates of 16.5% for 2007 and 25% for 2008, 2009 and 2010 in the PRC	1,753	3,519	3,571	3,384	4,425
Overprovision in last year	–	(647)	–	310	179
Tax effect of expenses not deductible for tax purposes	487	63	62	–	–
Tax effect of revenue not subject to tax	–	(93)	(130)	(120)	(181)
Others	–	70	81	–	–
Income tax expense	2,240	2,912	3,584	3,574	4,423

10. PROPERTY, PLANT AND EQUIPMENT

Hefei DashuSha Group	Buildings and improvements *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost				
Balance at 1 January 2007	8,504	800	658	9,962
Additions	382	–	71	453
Disposals	–	–	(6)	(6)
Balance at 31 December 2007 and 1 January 2008	8,886	800	723	10,409
Additions	153	713	53	919
Balance at 31 December 2008 and 1 January 2009	9,039	1,513	776	11,328
Additions	130	143	114	387
Balance at 31 December 2009 and 1 January 2010	9,169	1,656	890	11,715
Additions	7	408	85	500
Disposals	–	–	(10)	(10)
Balance at 30 September 2010	9,176	2,064	965	12,205

Hefei DashuSha Group	Buildings and improvements RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation				
Balance at 1 January 2007	653	524	424	1,601
Depreciation for the year	510	134	126	770
Disposals	–	–	(5)	(5)
Balance at 31 December 2007 and 1 January 2008	1,163	658	545	2,366
Depreciation for the year	515	106	73	694
Balance at 31 December 2008 and 1 January 2009	1,678	764	618	3,060
Depreciation for the year	608	205	65	878
Balance at 31 December 2009 and 1 January 2010	2,286	969	683	3,938
Depreciation for the period	486	188	57	731
Disposals	–	–	(1)	(1)
Balance at 30 September 2010	2,772	1,157	739	4,668
Carrying amount				
At 31 December 2007	7,723	142	178	8,043
At 31 December 2008	7,361	749	158	8,268
At 31 December 2009	6,883	687	207	7,777
At 30 September 2010	6,404	907	226	7,537

Hefei DashuShan	Buildings and improvements *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost				
Balance at 1 January 2007	8,504	800	658	9,962
Additions	382	–	71	453
Disposals	–	–	(6)	(6)
Balance at 31 December 2007 and 1 January 2008	8,886	800	723	10,409
Additions	–	568	50	618
Balance at 31 December 2008 and 1 January 2009	8,886	1,368	773	11,027
Additions	9	–	56	65
Balance at 31 December 2009 and 1 January 2010	8,895	1,368	829	11,092
Additions	–	406	57	463
Balance at 30 September 2010	8,895	1,774	886	11,555
Accumulated depreciation				
Balance at 1 January 2007	653	524	424	1,601
Depreciation for the year	510	134	126	770
Disposals	–	–	(5)	(5)
Balance at 31 December 2007 and 1 January 2008	1,163	658	545	2,366
Depreciation for the year	513	100	72	685
Balance at 31 December 2008 and 1 January 2009	1,676	758	617	3,051
Depreciation for the year	492	166	59	717
Balance at 31 December 2009 and 1 January 2010	2,168	924	676	3,768
Depreciation for the period	488	142	45	675
Balance at 30 September 2010	2,656	1,066	721	4,443
Carrying amount				
At 31 December 2007	7,723	142	178	8,043
At 31 December 2008	7,210	610	156	7,976
At 31 December 2009	6,727	444	153	7,324
At 30 September 2010	6,239	708	165	7,112

11. CEMENTARY ASSETS

Hefei Dashushan Group and Hefei Dashushan	Land use right	Leasehold improvement	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January 2007	2,813	4,850	7,663
Additions	–	293	293
Transfer to cost of sales	(365)	(736)	(1,101)
Carrying amount at 31 December 2007 and 1 January 2008	2,448	4,407	6,855
Transfers to cost of sales	(370)	(741)	(1,111)
Carrying amount at 31 December 2008 and 1 January 2009	2,078	3,666	5,744
Additions	–	170	170
Transfer to cost of sales	(313)	(647)	(960)
Carrying amount at 31 December 2009 and 1 January 2010	1,765	3,189	4,954
Additions	–	13	13
Transfers to cost of sales	(295)	(490)	(785)
Carrying amount at 30 September 2010	1,470	2,712	4,182

Hefei Dashushan Group planned to develop lands for construction and development of cemetery of RMB1,370,000 in next year ending as at 30 September 2011.

Land use rights comprise cost of acquiring rights to use certain land, which are located in PRC, for construction and development of cemetery. Land use right is held on leases of 50 years.

12. INTERESTS IN SUBSIDIARIES

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity shares, at cost	–	1,200	1,200	1,700

Name of entity	Place of establishment/ operation	Proportion of nominal value of issued capital/voting power held by the Hefei Dashushan Group: As at 31 December 2007	2008	2009	As at 30 September 2010	Fully paid and registered capital	Principal Activities
合肥人本殯儀服務有限公司 (Hefei Ren Ben Funeral Services Company Limited*) ("Hefei Ren Ben")	PRC	–	100%	100%	100%	RMB1,200,000	Development and construction of cemetery and provision of related services in the PRC
合肥花之間有限公司 (Hefei Huazhijian Co., Ltd*) ("Hefei Huazhijian")	PRC	–	–	–	100%	RMB500,000	Retail and whole of flowers and artist flowers, interior design, window display design and gardening

* The English names are for identification purpose only.

13. INVENTORIES

Hefei Dashushan Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	470	478	594	706

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	470	423	417	587

14. FINANCIAL ASSETS HELD FOR TRADING

Hefei Dashushan Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equity securities listed in the PRC	–	–	115	166

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equity securities listed in the PRC	–	–	115	72

15. TRADE AND OTHER PAYABLES

Hefei Dashushan Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	4,631	5,144	5,905	4,603
Receipts in advance	402	271	572	742
Payroll and welfare payables	4,818	5,471	6,093	2,999
Dividend payable	7,000	10,700	10,000	–
Other payables	606	887	1,294	1,870
	17,457	22,473	23,864	10,214

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	4,631	4,933	5,676	4,317
Receipts in advance	402	271	572	742
Payroll and welfare payables	4,818	5,423	5,574	2,836
Dividend payable	7,000	10,700	10,000	–
Other payables	606	760	738	799
	17,457	22,087	22,560	8,694

The aged analysis of the trade payables of the Hefei Dashushan Group and Hefei Dashushan presented based on the invoice date as at the end of each reporting period are as follows:

Hefei Dashushan Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	923	976	680	922
91 to 180 days	714	1,069	988	1,011
181 to 365 days	2,403	2,735	3,576	8
Over 1 year	591	364	661	2,662
	4,631	5,144	5,905	4,603

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	923	765	451	635
91 to 180 days	714	1,069	988	1,011
181 to 365 days	2,403	2,735	3,576	8
Over 1 year	591	364	661	2,663
	4,631	4,933	5,676	4,317

16. PAID IN CAPITAL

Hefei Dashushan	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Registered and fully paid				
At the beginning and end of the year/period	10,000	10,000	10,000	10,000

17. CAPITAL RISK MANAGEMENT

Hefei Dashushan Group and Hefei Dashushan manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Hefei Dashushan Group and Hefei Dashushan's overall strategy remains unchanged for the Relevant Period.

The capital structure of Hefei Dashushan Group and Hefei Dashushan consists of cash and cash equivalents and equity attributable to shareholders of Hefei Dashushan, comprising paid in capital, reserves and retained profits.

The directors of Hefei Dashushan review the capital structure regularly. Hefei Dashushan Group and Hefei Dashushan considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new paid in capital as well as raising of new debt or the repayment of existing debt.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

I. Categories of financial instruments

Hefei Dashushan Group	As at 31 December 2007	2008	2009	As at 30 September 2010
Financial Assets	RMB'000	RMB'000	RMB'000	RMB'000
Loans and receivables:				
– Other receivables	48	249	143	235
– Cash and cash equivalents	20,135	27,731	32,400	38,438
	20,183	27,980	32,543	38,673
Financial assets held for trading	–	–	115	166

Financial Liabilities	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	As at 30 September 2010 RMB'000
Amortised costs:				
Trade and other payables	12,237	16,731	17,199	6,473

Hefei Dashushan Financial Assets	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	As at 30 September 2010 RMB'000
Loans and receivables:				
– Other receivables	48	244	118	9,135
– Cash and cash equivalents	20,135	26,448	29,809	25,169
	20,183	26,692	29,927	34,304
Financial assets held for trading	–	–	115	72

Financial Liabilities	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	As at 30 September 2010 RMB'000
Amortised costs:				
Trade and other payables	12,237	16,393	16,414	5,116

II. Financial risk management and objective

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of Hefei Dashushan Group's business. The main risks arising from financial instruments in the normal course of Hefei Dashushan Group's business are credit risk and liquidity risk.

(a) Interest rate risk

Hefei Dashushan Group and Hefei Dashushan did not have material exposure to interest rate risk.

(b) Currency risk

Currency risk to the Group is minimal as most of the transactions of the Hefei Dashushan Group and Hefei Dashushan are carried out in functional currency.

(c) Liquidity risk

Hefei Dashushan group entities are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by board of Hefei Dashushan Group when the borrowing exceeds certain predetermined levels of authority. The policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The contractual maturities of non-derivative financial liabilities of Hefei Dashushan Group and Hefei Dashushan are trade and other payables. The total contractual undiscounted cash flows of financial liabilities are approximate to the carrying amounts.

(d) Credit risk

The credit risk of Hefei Dashushan Group is primarily attributable to cash and bank deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The cash and bank deposits of Hefei Dashushan Group are placed with major financial institutions.

At the end of reporting period, Hefei Dashushan Group did not have concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in statements of financial position. Hefei Dashushan Group not provide any guarantees which would expose to credit risk.

(e) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Hefei Dashushan Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) inactive market for identical assets or liabilities (''Level 1 measurements'');

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets held for trading with carrying amounts of RMB115,000 and RMB72,000 as at 31 December 2009 and 30 September 2010, respectively are Level 1 measurements.

There were no transfer between Level 1 and 2 during the Relevant Period.

19. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulation in PRC, Hefei Dashushan Group participates in a defined contribution pension scheme ("the Scheme") administered by the provincial government, in respect of employees of Hefei Dashushan Group, whereby Hefei Dashushan Group is required to make contributions to the Scheme at a rate of a percentage of the eligible employees' salaries and wages to the Scheme. Hefei Dashushan Group remit pension fund to contribution to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds.

The total costs recognised in profit or loss for year ended 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 were RMB155,000, RMB160,000, RMB160,000 and RMB240,000 respectively which represents contributions to the scheme by Hefei Dashushan Group at rates specified in the rules of the scheme.

20. RESERVES

(a) Statutory reserves

In accordance with the PRC Company Law, Hefei Dashushan Group registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilized to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

(b) Distributable reserves of Hefei Dashushan

In accordance with the Articles of Association of the Hefei Dashushan, the accumulated profits of Hefei Dashushan for the purpose of profit distribution will be deemed to be the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP").

21. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for Hefei Dashushan Group in respect of any period subsequent to 31 December 2009.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, regarding the financial information of Shandong FSY for the three years ended 31 December 2009 and nine months ended 30 September 2010.

BDO

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

23 February 2011

The Board of Directors
China Healthcare Holdings Limited
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 山東福壽園發展有限公司 (Shandong Fu Shou Yuan Development Co., Ltd) ("Shandong FSY") for each of the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the "Relevant Periods") and the comparative financial information of Shandong FSY for the nine months ended 30 September 2009 (the "2009 Comparative Information"), prepared for inclusion in the circular of China Healthcare Holdings Limited ("China Healthcare") (together with its subsidiaries referred to as the "Group") dated 23 February 2011 (the "Circular") in connection with the proposed acquisition of 50% equity interest in Shandong FSY (the "Acquisition III)").

Shandong FSY was established as a limited company in the People's Republic of China (the "PRC") on 29 December 2001 and is engaged in development and construction of cemetery in the PRC.

The statutory financial statements of Shandong FSY were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 北京中天恒會計師事務所有限責任公司 (Beijing Zhong Tian Heng Certified Public Accountants Co. Ltd.) for years ended 31 December 2007 and 2008 and 山東天恒信有限責任會計師事務所 (Shandong Tianhengxin Certified Public Accountants Co. Ltd.) for year ended 31 December 2009. (The English name of the firm is for the identification purpose). No statutory audited financial statements have been prepared for these entities in respect of any period subsequent to 31 December 2009.

BASIS OF PREPARATION

For the purpose of this report, the directors of Shandong FSY have prepared the financial statements of Shandong FSY for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), including Hong Kong Accounting Standards ("HKASs") and Interpretation, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited ("Listing Rules"). The Underlying Financial Statements for each of three years ended 31 December 2009 and nine months ended 30 September 2010 were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by HKICPA.

The financial information of the Relevant Periods (the "Financial Information") has been prepared based on the Underlying Financial Statements of Shandong FSY whereas no adjustments are considered necessary.

For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant necessary"

DIRECTORS' RESPONSIBILITY

The directors of Shandong FSY are responsible for the preparation and the true and fair view of the Financial Information in accordance with HKFRSs and the applicable disclosure requirement of the Listing Rules, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

In respect of the Financial Information for the Relevant Period, our responsibility is to express an opinion on the Financial Information based on our audit in accordance with Hong Kong Standards on Auditing and the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statement are free from material misstatement.

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

In respect of the 2009 Comparative Information, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We concluded our review in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim financial information Performed by the Independent Auditor on the Entity". A review of the 2009 Comparative Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shandong FSY as at 31 December 2007, 2008 and 2009 and 30 September 2010, and of its results and cash flows for the Relevant Periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Financial information for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note B(1) to the financial statements which indicates that Shandong FSY incurred a net loss of approximately RMB2,750,000, RMB2,147,000 and RMB148,000 during the year ended 31 December 2007, 2008 and 2009. In addition, Shandong FSY's current liabilities exceeded its current assets by approximately RMB13,531,000, RMB14,645,000, RMB13,699,000 and RMB12,529,000 as at 31 December 2007, 2008, 2009 and 30 September 2010 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Shangdong FSY's ability to continue as a going concern.

A. FINANCIAL INFORMATION

1. Statements of Comprehensive Income

		For the year ended 31 December			For the nine months ended 30 September	
		2007	**2008**	**2009**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*4*	9,093	11,464	15,364	10,525	16,305
Cost of sales		(3,023)	(3,578)	(4,203)	(2,915)	(4,720)
Gross profit		6,070	7,886	11,161	7,610	11,585
Other gain/(losses)		(9)	15	–	–	26
Selling expenses		(2,812)	(3,346)	(4,111)	(2,870)	(4,325)
Administrative expenses		(3,815)	(4,335)	(4,252)	(3,413)	(4,168)
Finance costs	*8*	(2,695)	(2,801)	(2,749)	(1,455)	(2,000)
(Loss)/profit before income tax	*5*	(3,261)	(2,581)	49	(128)	1,118
Income tax expense	*9*	511	434	(197)	(107)	(283)
(Loss)/profit and total comprehensive income for the year/period		(2,750)	(2,147)	(148)	(235)	835

2. Statements of Financial Position

		As at 31 December			As at 30 September
		2007	**2008**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	5,330	5,067	4,777	4,763
Deferred tax assets	*17*	1,263	1,697	1,500	1,217
Total non-current assets		6,593	6,764	6,277	5,980
Current assets					
Cemetery assets	*11*	77,692	81,413	84,352	87,102
Inventories	*12*	4,168	3,140	380	175
Other receivables	*13*	3,317	2,889	1,409	2,497
Cash and cash equivalents		2,118	2,074	3,329	1,111
Total current assets		87,295	89,516	89,470	90,885
Current liabilities					
Trade and other payables	*14*	66,493	54,342	53,821	55,511
Deferred revenue		83	119	159	203
Borrowings	*15*	34,250	49,700	49,189	47,700
Total current liabilities		100,826	104,161	103,169	103,414
Net current liabilities		(13,531)	(14,645)	(13,699)	(12,529)
Total assets less current liabilities		(6,938)	(7,881)	(7,422)	(6,549)
Non-current liabilities					
Borrowings	*15*	–	650	650	–
Deferred revenue		1,420	1,974	2,581	3,269
Total non-current liabilities		1,420	2,624	3,231	3,269
NET LIABILITIES		(8,358)	(10,505)	(10,653)	(9,818)
Capital and reserves					
Paid in capital	*16*	10,000	10,000	10,000	10,000
Retained earnings		(18,358)	(20,505)	(20,653)	(19,818)
EQUITY		(8,358)	(10,505)	(10,653)	(9,818)

3. Statements of Changes in Equity

	Share capital *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2007	10,000	(15,608)	(5,608)
Total comprehensive income for the year	–	(2,750)	(2,750)
Balance at 31 December 2007	10,000	(18,358)	(8,358)
Total comprehensive income for the year	–	(2,147)	(2,147)
Balance at 31 December 2008	10,000	(20,505)	(10,505)
Total comprehensive income for the year	–	(148)	(148)
Balance at 31 December 2009	10,000	(20,653)	(10,653)
Total comprehensive income for the period	–	835	835
Balance at 30 September 2010	10,000	(19,818)	(9,818)
(Unaudited)			
Balance at 1 January 2009	10,000	(20,505)	(10,505)
Total comprehensive income for the period	–	(235)	(235)
Balance at 30 September 2009 (unaudited)	10,000	(20,740)	(10,740)

4. Consolidated Statements of Cash Flows

	For the year ended 31 December			For the nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from operating activities					
(Loss)/profit before income tax	(3,261)	(2,581)	49	(128)	1,118
Adjustments for:					
Depreciation of property, plant and equipment	363	383	499	370	408
(Gain)/loss on disposal of property, plant and equipment, net	(1)	(21)	2	–	(26)
Interest expenses	2,695	2,801	2,749	1,448	1,976
Operating (loss)/profit before changes in working capital	(204)	582	3,299	1,690	3,476
Changes in working capital:					
Decrease in inventories	1,392	1,029	2,761	1,819	204
Increase in cemetery assets	(2,764)	(3,721)	(2,939)	(1,332)	(2,751)
Decrease/(increase) in other receivables	1,218	428	1,480	(341)	(1,085)
(Decrease)/increase in trade and other payables	(1,289)	1,448	45	(334)	211
Increase in deferred revenue	541	590	647	450	732
Cash (used in)/generated from operations	(1,106)	356	5,293	1,952	787
Interest paid	(241)	(2,801)	(2,749)	(229)	(498)
Net cash (used in)/generated from operating activities	(1,347)	(2,445)	2,544	1,723	289

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from investing activities					
Proceed from disposal of property, plant and equipment	61	50	–	–	39
Purchase of property, plant and equipment	(508)	(149)	(211)	(188)	(407)
Net cash used in investing activities	(447)	(99)	(211)	(188)	(368)
Cash flows from financing activities					
Proceed from borrowings	–	14,150	12,922	1,000	2,511
Repayment of borrowings	–	(11,650)	(14,000)	–	(4,650)
Net cash generated from/(used in) financing activities	–	2,500	(1,078)	1,000	(2,139)
Net (decrease)/increase in cash and cash equivalents	(1,794)	(44)	1,255	2,535	(2,218)
Cash and cash equivalents at beginning of the year/period	3,912	2,118	2,074	2,074	3,329
Cash and cash equivalents at end of the year/period, comprising bank balances and cash	2,118	2,074	3,329	4,609	1,111

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Shandong FSY is a limited liability company established in the PRC on 29 December 2001. Its holding company is 山東世界貿易中心 ('Shandong World Trade Centre'). Shandong FSY's principal activity is development and construction of cemetery and provision of related management services in the PRC. The principal place of business of Shandong FSY is situated at Xiaoli Town, Changqing, Jinan, Shandong.

In preparing the Financial Information, the directors of the Shandong FSY have given careful consideration to the future liquidity of Shandong FSY in light of the net current liabilities of RMB13,531,000, RMB14,645,000, RMB13,699,000 and RMB12,529,000 respectively at 31 December 2007, 2008, 2009 and 30 September 2010. These conditions indicates the existence of a material uncertainty that may cast significant doubt on Shandong FSY's ability to continue as a going concern and therefore, Shandong FSY may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of Shandong FSY are of the opinion that taking into account the estimated future funds generated from the operation, Shandong FSY has sufficient financial resources to meet its financial obligation as they fall due for the foreseeable future.

In addition, the shareholder of Shandong FSY, 中國中福實業有限公司 ("China Zhongfu Industry Co., Ltd.") has agreed to provide adequate financial support to enable Shandong FSY to meet in full its financial obligations until the completion of the Acquisition. ChinaHealth has also agreed that upon the completion of the Acquisition, it will provide financial support to Shandong FSY to enable it to meet its financial obligations as they fall due for the foreseeable future. Accordingly the Financial Information have been prepared on a going concern basis.

The Financial Information of the Relevant Periods has been prepared in accordance with the accounting policies detailed in Note 3, which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards, amendments and interpretations ("new HKFRSs"), which are effective for the accounting periods beginning on 1 January 2010. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Shandong FSY has consistently adopted all the new HKFRSs throughout the Relevant Periods.

At the date of this report, Shandong FSY has not early applied the following new and revised standards, amendments or interpretation that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures, except for the partial exemption from the disclosure requirements for government related entities[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exception from Comparative HKFRS 7 disclosure for Fist-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial instruments[7]
HKFRIC-INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HKFRIC-INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of Shandong FSY's financial assets.

The directors of Shandong FSY anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Shandong FSY.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs"), which collective terms includes Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional, presentation currency

The Financial Information are presented in Renminbi ("RMB"), which is the functional currency of Shandong FSY.

(d) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Shandong FSY and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	14 to 36 years or over the terms of the leases, whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years
Other equipments	5 to 8 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit and loss on disposal.

(f) Leasing

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Shandong FSY as lessee

Payments made under operating leases (net of any incentives received from the lessor), are recognised in profit or loss on a straight-line basis over the period of the lease.

(g) Cemetery assets

Cemetery assets represent cost of land use right and related improvement that are directly attributable to development and construction of cemetery, are carried at costs less any accumulated impairment losses. Cemetery assets are transferred to costs of sales when they are sold.

(h) Financial instruments

(i) Financial assets

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Loans and receivables are initially recognised fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method, less any identified impairment losses unless the effects of discounting would be immaterial, in which case, they are stated at cost.

(ii) Impairment loss on financial assets

Shandong FSY assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors’ financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Financial liabilities include borrowings, trade payables and other liabilities. They are initially recognised at fair value net off directly attributable transaction costs and subsequently measured at amortised cost using effective interest method, unless the effects of discounting is immaterial, in which case, they are stated at cost. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in the combined statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by Shandong FSY are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

Shandong FSY derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

A conveyance of the right to use grave plots and niches for cremation urns is recognised as a sale of the grave plots and niches for cremation urns when Shandong FSY has transferred to the customers the right to use the grave plots and niches for cremation urns upon the execution of a binding agreement.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Shandong FSY 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(l) Foreign currency

Transactions entered into by Shandong FSY in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Shandong FSY established in the PRC makes monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised in profit or loss as employees render services during the year, except to the extent that they are included in the cost of inventories not yet recognised as an expense. Shandong FSY's obligations under these plans are limited to the fixed percentage contributions payable.

(n) Impairment of other assets

At the end of each reporting period, Shandong FSY reviews the carrying amounts of property, plant and equipment and cemetery assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(o) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Shandong FSY has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Related parties

For the purposes of the Financial information, a party is considered to be related to Shandong FSY if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control with, Shandong FSY (this includes parents, subsidiaries and fellow subsidiaries);

  (ii) has an interest in the entity that gives it significant influence over Shandong FSY; or

  (iii) has joint control over Shandong FSY;

(b) the party is an associate (as defined in HKAS 28 Investments in Associated) of Shandong FSY;

(c) the party is a joint venture in which Shandong FSY is a venturer (as defined in HKAS 31 Interest in Joint Ventures);

(d) the party is a member of the key management personnel of Shandong FSY of its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of Shandong FSY, or of any entity that is a related party of Shandong FSY.

4. REVENUE

The principal activities of Shandong FSY are development and construction of cemetery in PRC. Revenue, which represents the net amounts received and receivable for goods sold of grave plots, niches for cremation urns and tomb sets less returns and discounts.

5. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax expense is stated after charging:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Auditors' remuneration	3	3	3	–	–
Carrying amount of inventories sold	2,287	2,832	3,385	2,259	3,713
Costs of cemetery assets recognised as cost of sales	736	746	818	656	1,007
Depreciation of property, plant and equipment	361	384	499	370	408
Operating lease rentals in respect of office buildings	252	332	241	17	28
Staff costs (including directors' and supervisors' remuneration)	3,604	4,017	4,572	3,264	4,280
– Basic salaries, housing and other allowances and benefits in kind	61	143	163	154	188
– Defined contribution pension cost	154	332	399	240	370

6. DIRECTORS' EMOLUMENTS

None of the directors and supervisors received basic salaries, housing and other allowances and benefits in kind and defined contribution pension cost as compensation for the loss of office as a director or a supervisor of Shandong FSY in connection with the management of the affairs for the Relevant Periods.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of Shandong FSY, nil (2009: nil; 2008: nil; 2007: nil) is director of Shandong FSY. The emoluments of the individuals are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	598	650	658	434	434
Contribution to retirement benefit scheme	9	16	54	26	54
	607	666	712	460	488

The remuneration of the highest paid, non-director employee fell within the range of nil to RMB1,000,000.

8. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on bank advance and other borrowings wholly repayable within five years	2,690	2,793	2,739	1,448	1,976
Others	5	8	10	7	24
	2,695	2,801	2,749	1,455	2,000

9. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax – PRC Enterprise Income Tax ("EIT")	–	–	–	–	–
Deferred tax *(note 17)*					
– current year	(915)	434	197	107	283
– attribute to increase in tax rate	404	–	–	–	–
Income tax expense	(511)	(434)	197	107	283

Taxation is calculated at the rates of tax prevailing in the countries in which Shandong FSY operates, based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("New Tax Law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008. The State Council of the PRC issued the Implementation Rules of the Enterprise Income tax law ("Implementation Rules") on 6 December 2007 and GuoFa (2007) No. 39 Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Law Policies ("Circular 39") on 26 December 2007. The New Tax Law, its Implementation Rules and Circular 39 provide a five-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007. Shandong FSY is subject to tax rates of 25% from 2008 onwards.

A reconciliation between income tax expense and (loss)/profit before income tax at applicable tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(Loss)/profit before income tax	(3,261)	(2,581)	49	(128)	1,118
Tax at applicable statutory tax rates of 33% for 2007 and 25% for 2008, 2009 and 2010 in the PRC	(1,076)	(645)	12	(32)	280
Tax effect of expenses not deductible for tax purposes	161	211	185	139	3
Effect on deferred tax balances resulting from an increase in applicable tax rate	404	–	–	–	–
Income tax expense	(511)	(434)	197	107	283

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	**Motor vehicles**	**Office equipment**	**Construction-in-progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
Balance at 1 January 2007	1,157	1,918	376	2,641	6,092
Additions	–	53	103	352	508
Disposals	–	(110)	–	–	(110)
Balance at 31 December 2007 and 1 January 2008	1,157	1,861	479	2,993	6,490
Additions	74	–	75	–	149
Transfers	2,993	–	–	(2,993)	–
Disposals	–	(52)	(3)		(55)

	Buildings and improvements *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Balance at 31 December 2008 and 1 January 2009	4,224	1,809	551	–	6,584
Additions	93	11	107	–	211
Disposals	–	–	(7)	–	(7)
Balance at 31 December 2009 and 1 January 2010	4,317	1,820	651	–	6,788
Additions	–	195	212	–	407
Disposals	–	(211)	–	–	(211)
Balance at 30 September 2010	4,317	1,804	863	–	6,984
Accumulated depreciation and impairment loss					
Balance at 1 January 2007	165	622	60	–	847
Depreciation for the year	60	185	118	–	363
Disposals	–	(50)	–	–	(50)
Balance at 31 December 2007 and 1 January 2008	225	757	178	–	1,160
Depreciation for the year	65	227	91	–	383
Disposals	–	(24)	(2)	–	(26)
Balance at 31 December 2008 and 1 January 2009	290	960	267	–	1,517
Depreciation for the year	183	217	99	–	499
Transfers	–	–	(5)	–	(5)
Balance at 31 December 2009 and 1 January 2010	473	1,177	361	–	2,011
Depreciation for the period	97	171	140	–	408
Transfers	–	(198)	–	–	(198)
Balance at 30 September 2010	570	1,150	501	–	2,221
Carrying amount					
At 31 December 2007	932	1,104	301	2,993	5,330
At 31 December 2008	3,934	849	284	–	5,067
At 31 December 2009	3,844	643	290	–	4,777
At 30 September 2010	3,747	654	362	–	4,763

Property, plant and equipment with aggregate net book value of RMB932,000, RMB3,934,000, RMB3,844,000 and RMBnil as at 31 December 2007, 31 December 2008 31 December 2009 and 30 September 2010 respectively was pledged as security for certain bank loans *(Note 15)* granted to Shandong FSY.

The buildings and relevant leasehold improvements were established on the land that did not have the relevant land use rights. Refer to Note 11 for more details.

11. CEMENTARY ASSETS

	Land use right	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January 2007	70,113	4,815	74,928
Additions	–	3,500	3,500
Transfer to cost of sales	(714)	(22)	(736)
Carrying amount at 31 December 2007 and 1 January 2008	69,399	8,293	77,692
Additions	–	4,467	4,467
Transfers to cost of sales	(724)	(22)	(746)
Carrying amount at 31 December 2008 and 1 January 2009	68,675	12,738	81,413
Additions	–	3,757	3,757
Transfer to cost of sales	(794)	(24)	(818)
Carrying amount at 31 December 2009 and 1 January 2010	67,881	16,471	84,352
Additions	–	3,757	3,757
Transfers to cost of sales	(827)	(180)	(1,007)
Carrying amount at 30 September 2010	67,054	20,048	87,102

Shandong FSY planned to develop lands for construction and development of cemetery of RMB730,000 in the next year ending as at 30 September 2011.

Land use rights comprise cost of acquiring rights to use certain land, which are located in PRC, for construction and development of cemetery. Land use right is held on leases of 50 years.

At 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, Shandong FSY did not have the relevant land use rights. However, Shandong FSY obtained the following certificates in relation to the construction of cemetery assets and building in property, plant and equipment.

Pursuant to the approval of construction of cemetery, LuMinHan No.86 (《同意興建山東福壽園的批覆》魯民函200486號) issued by Department of Civil Affairs of Shandong Province (山東省民政廳) dated 22 April 2004 (the “Department”), the Department approved Shandong FSY to establish cemetery on above land.

According to a legal opinion issued by All Bright Law Offices (錦天城律師事務所) (the "PRC Lawyer"), based on the above approval of construction of cemetery, despite Shandong FSY has been gone through procedures to acquire the above land use right certificate in accordance with the PRC laws and regulations.

In PRC Lawyer's view, Shandong FSY obtained land use right in 2003 substantially. Based on the legal opinion, the directors of Shandong FSY are of the opinion that the land use right should be treated as assets of Shandong FSY and included in cemetery assets.

12. INVENTORIES

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	30	30	18	18
Finished goods	4,138	3,110	362	157
	4,168	3,140	380	175

13. OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments to suppliers	3,284	2,604	1,085	520
Property rental deposits	–	155	153	245
Amount due from a fellow subsidiary	–	–	–	390
Amount due from holding company	–	–	–	1,137
Other receivables	33	130	171	205
	3,317	2,889	1,409	2,497

Shandong FSY did not provide a credit period to its customers had no outstanding accounts receivables.

Shandong FSY does not hold any collateral over these balances. No interest is charged on others receivables. Shandong FSY makes provision against other receivables individually, based on recoverable amounts estimated by making reference to subsequent settlement, past default experience and objective evidence.

The balances of a fellow subsidiary and holding company at the end of each reporting period are unsecured, interest free and repayable on demand.

14. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	9,133	10,395	9,151	9,852
Receipts in advance	41	29	35	176
Amount due to holding company	11,671	1,541	974	–
Amount due to Shanghai FSY*	3,642	211	855	1,497
Payroll and welfare payables	875	855	1,208	739
Accrued interest	11,417	11,417	11,417	13,750
Other payables	29,714	29,894	30,181	29,497
	66,493	54,342	53,821	55,511

* 上海福壽園實業發展有限公司 ("Shanghai FSY") is a subsidiary of a shareholder.

The following is an aged analysis of trade payables at the respective reporting dates:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	719	1,354	250	1,019
91 to 180 days	43	100	56	1,553
181 to 365 days	238	248	146	464
Over 1 year	8,133	8,693	8,699	6,816
	9,133	10,395	9,151	9,852

The balances of holding company and Shanghai FSY at the end of each reporting period are unsecured, interest-free and repayable on demand.

15. BORROWINGS

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest bearing				
Secured – Bank loan	650	650	650	–
Unsecured – Bank loan	3,000	3,000	7,000	3,000
– Loan from holding company	30,600	36,200	31,689	34,200
– Loan from Shanghai FSY	–	10,500	10,500	10,500
	34,250	50,350	49,839	47,700

At each of the reporting period end, total current and non-current bank loans and overdraft and other borrowings were payable as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
On demand or within one year	34,250	49,700	49,189	47,700
More than one year, but not exceeding two years	–	–	–	–
More than two year, but not exceeding five years	–	650	650	–
	34,250	50,350	49,839	47,700
Amount due within one year included in current liabilities	34,250	49,700	49,189	47,700
	–	650	650	–

(i) As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, bank borrowings of approximately RMB650,000, RMB650,000, RMB650,000 and Nil respectively were secured by pledge of property, plant and equipment *(Note 10)*.

(ii) As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, bank borrowings of approximately RMB3,000,000, RMB3,000,000, RMB3,000,000 and RMB7,000,000 and RMB3,000,000 were guaranteed by fellow subsidiaries.

The range of effective interest rates (which are also equal to contracted interest rates) of Shandong FSY are as follows:

	Year ended 31 December			Nine months ended 30 September
Effective interest rate	**2007**	**2008**	**2009**	**2010**
Fixed-rate borrowings	8.75%	6.9% to 8.75%	4.86% to 8.32%	4.86% to 6.9%
Variable-rate borrowings	7.74%	5.31%	5.31%	5.56%

16. PAID IN CAPITAL

	As at 31 December			As at 30 September
Registered and fully paid	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning and end of the year/period	10,000	10,000	10,000	10,000

17. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	1,263	1,697	1,500	1,217

Details of the deferred tax liabilities and assets recognised and movements during the current and prior years:

Assets	**Tax allowable losses**
	RMB'000
At 1 January 2007	752
Credit to profit or loss for the year	915
	(404)
At 31 December 2007	1,263
Charge to profit or loss for the year	434
At 31 December 2008	1,697
Charge to profit or loss for the year	(197)
At 31 December 2009	1,500
Charge to profit or loss for the period	(283)
At 30 September 2010	1,217

The net operating loss attributable to the subsidiary located in PRC can only be carried forward for a maximum period of five years. The expiration period of unused tax losses is as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2009	649	649	–	–
2010	1,407	1,407	1,267	133
2011	226	226	226	226
2012	2,772	2,772	2,772	2,772
2013	–	1,739	1,739	1,739
	5,054	6,793	6,004	4,870

18. LEASES

Operating leases – lessee

Shandong FSY leases certain operating lease arrangements relating to office with lease terms ranging from one to two years. The lease payments recognised as an expenses are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Minimum lease payments	252	332	241	17	28

The total future minimum lease payments are due as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Not later than one year	332	241	88	–	–

19. RELATED PARTY TRANSACTIONS

(a) Related parties of Shandong FSY

During the Relevant Periods, for the purpose of this report, the directors are of the view that the following parties are related parties of Shandong FSY:

Name of related parties	**Relationship**
山東世界貿易中心 (Shandong World Trade Centre*)	Holding Company
山東銀座商城股份有限公司 (Shandong Inzone Commercial Centre Holding Company Limited*)	Fellow subsidiary
濟南銀座購物廣場有限公司 (Jinan Inzone Shopping Arcade Company Limited*)	Fellow subsidiary

* The English names are for identification purpose only.

(b) Transactions with related parties

In addition to the information disclosed in notes 6 and 7 to the Financial Information, significant related party transactions between the Shandong FSY and its related parties during the financial years were as follows:

Related party relationship	Type of transaction	Transaction amount For the year ended 31 December 2007	2008	2009	30 September 2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Holding company	Interest expenses	2,454	2,514	1,922	1,219	1,358

20. CAPITAL RISK MANAGEMENT

Shandong FSY manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Shandong FSY's overall strategy remains unchanged for the Relevant Period.

The capital structure of the Shandong FSY consists of cash and cash equivalents, borrowings and equity attributable to shareholders of Shandong FSY, comprising paid in capital, reserves and retained profits.

The directors of Shandong FSY review the capital structure regularly. Shandong FSY considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new paid in as well as raising of new debt or the repayment of existing debt.

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

I. Categories of financial instruments

	As at 31 December 2007	2008	2009	As at 30 September 2010
Financial assets	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and receivables:				
– Other receivables	33	285	324	450
– Cash and cash equivalents	2,118	2,074	3,329	1,111
	2,151	2,359	3,653	1,561

	As at 31 December 2007	2008	2009	As at 30 September 2010
Financial liabilities	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amortised costs:				
– Trade and other payables	66,452	54,313	53,786	55,335
– Borrowings	34,250	50,350	49,839	47,700
	100,702	104,663	103,625	103,035

II. Financial risk management and objective

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Shandong FSY's business. The main risks arising from Shandong FSY's financial instruments in the normal course of business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Interest rate risk

As at 31 December 2008, 31 December 2009 and 30 September 2010, Shandong FSY's bank borrowings were carried at fixed interest rates, and therefore were exposed to both fair value interest rate risks. Shandong FSY did not have material exposure to interest rate risk

(b) Currency risk

Currency risk to Shandong FSY is minimal as most of the Shandong FSY's transactions are carried out in functional currency.

(c) Liquidity risk

Shandong FSY is responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by Shandong FSY's board when the borrowing exceeds certain predetermined levels of authority. The Shandong FSY's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The contractual maturities of non-derivative financial liabilities are shown as below:

	Weighted Average Interest rate	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007						
Trade and other payables		66,452	66,452	66,452	–	–
Other borrowings	8.02	30,600	33,054	33,054	–	–
Bank borrowings	8.42	3,650	3,883	3,883	–	–
		100,702	103,389	103,389	–	–
At 31 December 2008						
Trade and other payables		54,313	54,313	54,313	–	–
Other borrowings	5.38	46,700	52,374	52,374	–	–
Bank borrowings	8.06	3,650	3,966	3,247	45	674
		104,663	110,653	109,934	45	674

	Weighted Average Interest rate	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009						
Trade and other payables		53,786	53,786	53,786	–	–
Other borrowings	5.87	42,189	44,669	44,669	–	–
Bank borrowings	5.63	7,650	7,937	7,263	674	–
		103,625	106,392	105,718	674	–
At 30 September 2010						
Trade and other payables		55,335	55,335	55,335	–	–
Other borrowings	3.89	44,700	46,476	46,476	–	–
Bank borrowings	6.37	3,000	3,043	3,043	–	–
		103,035	104,854	104,854	–	–

(d) Credit risk

Shandong FSY's credit risk is primarily attributable to cash and bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Shandong FSY's cash and bank deposits are placed with major financial institutions.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer pertaining to the economic environment in which the customer operates.

At the end of the reporting period, Shandong FSY did not have concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position. Shandong FSY does not provide any guarantees which would expose to credit risk.

(e) Fair value

The directors of Shandong FSY consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

22. CAPITAL COMMITMENTS

Shandong FSY did not have any material capital commitment at the end of each reporting period.

23. CONTINGENT LIABILITIES

As at 31 December 2007, 31 December 2008 and 31 December 2009 and 30 September 2010, Shandong FSY did not have any significant contingent liabilities.

24. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulation in PRC, Shandong FSY participates in a defined contribution pension scheme ("the Scheme") administered by the provincial government, in respect of employees of Shandong FSY, whereby Shandong FSY is required to make contributions to the Scheme at a rate of a percentage of the eligible employees' salaries and wages to the Scheme. Shandong FSY remits pension fund to contribution to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds.

The total costs charged to the statements of comprehensive income for year ended 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 were RMB154,000, RMB332,000, RMB399,000, RMB157,000 and RMB370,000 respectively which represents contributions to the scheme by Shandong FSY at rates specified in the rules of the scheme.

25. RESERVES

(a) Statutory reserves

In accordance with the PRC Company Law, Shandong FSY registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilized to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

Shandong FSY was established in PRC and therefore are subject to the above mandated restrictions on distributable profits.

(b) Distributable reserves

In accordance with the Articles of Association of Shandong FSY, the accumulated profits of for the purpose of profit distribution will be deemed to be the lesser of (i) the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP") and (ii) the amount determined in accordance with HKFRSs.

As at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010, Shandong FSY did not have reserve available for distribution to its shareholders.

26. SUBSEQUENT EVENTS

No audited financial statements of Shandong FSY have been prepared in respect of any period subsequent to 30 September 2010.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, regarding the financial information of Shanghai FSY Consulting Group for the three years ended 31 December 2009 and the nine months ended 30 September 2010.

BDO

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

23 February 2011

The Board of Directors
China Healthcare Holdings Limited
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 上海福壽園企業管理諮詢有限公司 (Shanghai Fu Shou Yuan Consulting & Management Co., Ltd. ("Shanghai FSY Consulting") and its subsidiary (hereinafter collectively referred to as the "Shanghai FSY Consulting Group") for each of the three years ended 31 December 2007, 2008 and 2009 and the nine months ended 30 September 2010 (the "Relevant Periods") and the comparative financial information of Shanghai FSY Consulting Group for the nine months ended 30 September 2009 (the "2009 Comparative Information"), prepared for inclusion in the circular of China Healthcare Holdings Limited ("China Healthcare") (together with its subsidiary referred to as the "Group") dated 23 February 2011 (the "Circular") in connection with the proposed acquisition of 100% equity interest in Shanghai FSY Consulting (the "Acquisition IV").

Shanghai FSY Consulting was established as a limited company in the People's Republic of China (the "PRC") on 9 September 2002 and is engaged in provision of consulting and management service to development and construction of cemetery and provision of funeral arrangement services in the PRC.

Particulars of Shanghai FSY Consulting's subsidiary at the end of each reporting period and the date of this report is as follows:

Name of company	Place and date of incorporation/ establishment	Fully paid and registered capital as at the date of this report	Attributable equity interest held by Shanghai FSY Consulting as at 2007 Direct	31 December 2008 Direct	2009 Direct	30 September 2010 Direct	the date of report Direct	Principal activity
重慶安樂殯儀服務有限公司 (Chongqing Anle Funeral Services Co., Ltd.*) ("Chongqing Anle Funeral")	PRC 23 January 2003	RMB1,000,000	80%	80%	80%	80%	80%	Provision of funeral arrangement service and sales of funeral products in PRC

* The English names are for identification purpose only.

The statutory financial statements of Shanghai FSY Consulting and its subsidiary for the three years ended 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of company	Financial period	Statutory auditors
Shanghai FSY Consulting	Years ended 31 December 2007, 2008 and 2009	上海應明德會計師事務所 (Shanghai Ying Ming De Certified Public Accountants*)
Chongqing Anle Funeral	Years ended 31 December 2007, 2008 and 2009	重慶諦威會計師事務所有限公司 (Chongqing Diwei Certified Public Accountants Company Limited*)

* The English names are for identification purpose only.

No statutory audited financial statements have been prepared for these entities in respect of any period subsequent to 31 December 2009.

BASIS OF PREPARATION

For the purpose of this report, the directors of Shanghai FSY Consulting have prepared the consolidated financial statements of the Shanghai FSY Consulting Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), including Hong Kong Accounting Standards ("HKASs") and Interpretation, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited ("Listing Rules"). The Underlying Financial Statements for each of three years ended 31 December 2009 and the nine months ended 30 September 2010 were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information of the Relevant Periods (the "Financial Information") has been prepared based on the Underlying Financial Statements or, where appropriate, unaudited financial statements of Shanghai FSY Consulting and its subsidiary now comprising the Shanghai FSY Consulting Group, on the basis set out in Note 1 below whereas no adjustment are considered necessary.

For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant".

DIRECTORS' RESPONSIBILITY

The directors of Shanghai FSY Consulting are responsible for the preparation and the true and fair view of the Financial Information in accordance with HKFRSs and the applicable disclosure requirement of the Listing Rules and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

In respect of the Financial Information for the Relevant Periods, our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards of Auditing and the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

In respect of the 2009 Comparative Information, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We concluded our review in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim financial information Performed by the Independent Auditor on the Entity". A review of the 2009 Comparative Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shanghai FSY Consulting Group as at 31 December 2007, 2008 and 2009 and 30 September 2010, and of its results and cash flows for the Relevant Periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 2009 Comparative Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 below which are in conformity with HKFRSs.

A. FINANCIAL INFORMATION

1. Consolidated Statements of Comprehensive Income

		For the year ended 31 December			For the nine months ended 30 September	
		2007	**2008**	**2009**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*4*	12,408	16,021	15,771	11,019	13,112
Cost of sales		(4,366)	(6,039)	(5,980)	(4,150)	(5,113)
Gross profit		8,042	9,982	9,791	6,869	7,999
Selling expenses		(1,857)	(2,354)	(2,848)	(2,054)	(2,570)
Administrative expenses		(2,116)	(6,110)	(4,185)	(3,141)	(2,074)
Profit before income tax	*6*	4,069	1,518	2,758	1,674	3,355
Income tax expense	*9*	(1,108)	(1,190)	(1,220)	(857)	(1,098)
Profit and total comprehensive income for the year/period		2,961	328	1,538	817	2,257
Total comprehensive income for the year/period						
Shareholders of Shanghai FSY Consulting		2,676	357	993	362	1,657
Non controlling interests		285	(29)	545	455	600
		2,961	328	1,538	817	2,257

2. Consolidated Statements of Financial Position

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	1,089	880	1,063	2,381
Deferred tax assets	*15*	299	150	–	–
Total non-current assets		1,388	1,030	1,063	2,381
Current assets					
Inventories	*12*	173	172	211	170
Other receivables	*13*	11,123	9,270	1,874	11,691
Cash and cash equivalents		2,994	6,792	11,414	4,775
Total current assets		14,290	16,234	13,499	16,636
Current liabilities					
Trade and other payables	*14*	6,395	6,834	1,721	2,935
Income tax payable		1,402	2,221	3,094	4,078
Total current liabilities		7,797	9,055	4,815	7,013
Net current assets		6,493	7,179	8,684	9,623
Total assets less current liabilities		7,881	8,209	9,747	12,004
NET ASSETS		7,881	8,209	9,747	12,004
Capital and reserves					
Paid in capital	*16*	5,000	5,000	5,000	5,000
PRC statutory reserve	*20*	227	467	500	500
Retained earnings		2,181	2,298	3,258	4,915
Equity attributable to shareholders of Shanghai FSY Consulting		7,408	7,765	8,758	10,415
Non-controlling interests		473	444	989	1,589
TOTAL EQUITY		7,881	8,209	9,747	12,004

3. Statements of Financial Position of Shanghai FSY Consulting

		As at 31 December			As at 30 September
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*10*	244	224	201	185
Interest in a subsidiary	*11*	800	800	800	800
Total non-current assets		1,044	1,024	1,001	985
Current assets					
Other receivables	*13*	8,575	9,167	1,769	11,644
Cash and cash equivalents		1,162	1,942	4,263	2,774
Total current assets		9,737	11,109	6,032	14,418
Current liabilities					
Trade and other payables	*14*	4,321	5,168	1,217	10,363
Income tax payable		146	176	213	181
Total current liabilities		4,467	5,344	1,430	10,544
Net current assets		5,270	5,765	4,602	3,874
Total assets less current liabilities		6,314	6,789	5,603	4,859
NET ASSETS		6,314	6,789	5,603	4,859
Capital and reserves					
Paid in capital	*16*	5,000	5,000	5,000	5,000
Retained earnings		1,314	1,789	603	(141)
TOTAL EQUITY		6,314	6,789	5,603	4,859

4. Consolidated Statements of Changes in Equity

	Paid in capital RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Equity attributable to shareholders of Shanghai FSY Consulting RMB'000	Non–controlling interests RMB'000	Total RMB'000
Balance at 1 January 2007	5,000	122	(390)	4,732	188	4,920
Total comprehensive income for the year	–	–	2,676	2,676	285	2,961
Transfer to statutory reserve	–	105	(105)	–	–	–
Balance at 31 December 2007 and 1 January 2008	5,000	227	2,181	7,408	473	7,881
Total comprehensive income for the year	–	–	357	357	(29)	328
Transfer to statutory reserve	–	240	(240)	–	–	–
Balance at 31 December 2008 and 1 January 2009	5,000	467	2,298	7,765	444	8,209
Total comprehensive income for the year	–	–	993	993	545	1,538
Transfer to statutory reserve	–	33	(33)	–	–	–
Balance at 31 December 2009 and 1 January 2010	5,000	500	3,258	8,758	989	9,747
Total comprehensive income for the period	–	–	1,657	1,657	600	2,257
Balance at 30 September 2010	5,000	500	4,915	10,415	1,589	12,004
(Unaudited)						
Balance at 1 January 2009	5,000	467	2,298	7,765	444	8,209
Total comprehensive income for the period	–	–	362	362	455	817
Balance at 30 September 2009 (unaudited)	5,000	467	2,660	8,127	899	9,026

5. Consolidated Statements of Cash Flows

	For the year ended 31 December			For the nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cash flows from operating activities					
Profit before income tax	4,069	1,518	2,758	1,577	3,355
Adjustments for:					
Depreciation of property, plant and equipment	254	250	254	182	229
Written off of inventory	314	–	–	–	–
Written off of other receivables	–	3,000	1,500	1,500	–
Operating profit before changes in working capital	4,637	4,768	4,512	3,259	3,584
Changes in working capital:					
(Increase)/decrease in inventories	(39)	1	(39)	(68)	41
(Increase)/decrease in other receivables	(4,651)	(1,147)	5,896	4,455	(9,817)
Increase/(decrease) in trade and other payables	116	439	(5,113)	(4,839)	1,214
Cash generated from operations	63	4,061	5,256	2,807	(4,978)
Income tax paid	(181)	(222)	(197)	(144)	(114)
Net cash (used in)/generated from operating activities	(118)	3,839	5,059	2,663	(5,092)
Cash flows from investing activities					
Purchase of property, plant and equipment and net cash used in investing activities	(558)	(41)	(437)	(420)	(1,547)
Net (decrease)/increase in cash and cash equivalents	(676)	3,798	4,622	2,243	(6,639)
Cash and cash equivalents at beginning of the year/period	3,670	2,994	6,792	6,792	11,414
Cash and cash equivalents at end of the year/period, comprising bank balances and cash	2,994	6,792	11,414	9,035	4,775

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Shanghai FSY Consulting is a limited liability company established in the PRC on 9 September 2002. Shanghai FSY Consulting and its subsidiary' principal activities are provision of consulting and management service to development and construction of cemetery and provision of funeral arrangement services in the PRC. The principal place of business of Shanghai FSY Consulting is situated at Fengjing Town, Qingpu, Shanghai, the PRC.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Shanghai FSY Consulting Group has consistently adopted Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and the related Interpretations ("HK(IFRIC)-Int"), which are effective for the accounting period beginning on January 1, 2010.

At the date of this report, Shanghai FSY Consulting Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures, except for the partial exemption from the disclosure requirements for government related entities[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exception from Comparative HKFRS 7 disclosure for Fist-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial instruments[7]
HKFRIC-INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HKFRIC-INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of Shanghai FSY Consulting Group's financial assets.

The directors of Shanghai FSY Consulting Group anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs"), which collective terms includes Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Shanghai FSY Consulting Group is set out below.

(b) Basis of measurement

The Financial Information has been prepared on the historical cost basis.

(c) Functional, presentation currency

The Financial Information are presented in Renminbi ("RMB"), which is the functional currency of Shanghai FSY Consulting.

(d) Basis of consolidation

The Financial Information comprises the financial statements of Shanghai FSY Consulting and its subsidiary. Inter-company transactions and balances between group companies are eliminated in full on consolidation.

On acquisition, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. Non-controlling interests in subsidiaries are identified separately from the Shanghai FSY Consulting Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

The results of subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Changes in Shanghai FSY Consulting Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of Shanghai FSY Consulting Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owner of Shanghai FSY Consulting.

When Shanghai FSY Consulting Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly-controlled entity.

(e) Subsidiary

A subsidiary is an entity over which Shanghai FSY Consulting is able to exercise control. Control is achieved where Shanghai FSY Consulting, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In Shanghai FSY Consulting's statement of financial position, investment in subsidiary is stated at cost less impairment loss, if any. The results of subsidiary are accounted for by Shanghai FSY Consulting on the basis of dividend received and receivable.

(f) Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Shanghai FSY Consulting Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	14 to 36 years or over the terms of the leases, whichever is shorter
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	5 to 10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit and loss on disposal.

(g) Financial instruments

(i) Financial assets – Loan and receivable

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Loans and receivables are initially recognised fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method, less any identified impairment losses unless the effects of discounting would be immaterial, in which case, they are stated at cost.

(ii) Impairment loss on financial assets

The Shanghai FSY Consulting Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Financial liabilities include borrowings, trade payables and other liabilities. They are initially recognised at fair value net off directly attributable transaction costs and subsequently measured at amortised cost using effective interest method, unless the effects of discounting is immaterial, in which case, they are stated at cost. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in the combined statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by Shanghai FSY Consulting Group are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

Shanghai FSY Consulting Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Service income is recognised when services are provided.

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(k) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Shanghai FSY Consulting and its subsidiary incorporated in the PRC makes monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised as an expense in profit or loss as employees render services during the year, except to the extent that they are included in the cost of inventories not yet recognised as an expense. Shanghai FSY Consulting Group's obligations under these plans are limited to the fixed percentage contributions payable.

(l) Impairment of other assets

At the end of each reporting period, the Shanghai FSY Consulting Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Shanghai FSY Consulting Group have a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated. Provisions are not recognised for future operating losses.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Related parties

For the purposes of the Financial information, a party is considered to be related to Shanghai FSY Consulting Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, Shanghai FSY Consulting Group (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over Shanghai FSY Consulting Group; or

(iii) has joint control over Shanghai FSY Consulting Group;

(b) the party is an associate (as defined in HKAS 28 Investments in Associated) of Shanghai FSY Consulting Group;

(c) the party is a joint venture in which Shanghai FSY Consulting Group is a venturer (as defined in HKAS 31 Interest in Joint Ventures);

(d) the party is a member of the key management personnel of Shanghai FSY Consulting Group of its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of Shanghai FSY Consulting Group, or of any entity that is a related party of Shanghai FSY Consulting Group.

4. REVENUE

Revenue recognised as turnover of the Shanghai FSY Consulting Group is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Consulting service to development and construction of cemetery and agency service to a conveyance of the right to use grave plots and niches for cremation urns	4,574	5,124	3,711	2,314	2,129
Funeral arrangement services	7,834	10,897	12,060	8,705	10,983
	12,408	16,021	15,771	11,019	13,112

5. SEGMENT INFORMATION

Shanghai FSY Consulting Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

Shanghai FSY Consulting Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Shanghai FSY Consulting Group's reportable segments:

- Consulting and management service Division – Consulting service to the development and construction of cemetery and agency service for grave plots and niches for cremation urns;

- Funeral arrangement service Division – provision of funeral arrangement services;

Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

Reportable segments

An analysis of Shanghai FSY Consulting Group's turnover and results by reportable segment is as follows:

Segment turnover and segment results

Year ended 31 December 2007

	Consulting and agency service to cemetery *RMB'000*	**Funeral arrangement service division** *RMB'000*	**Total** *RMB'000*
Revenue	4,574	7,834	12,408
Segment result	1,753	2,316	4,069
Income tax expenses			(1,108)
Profit for the year			2,961

Year ended 31 December 2008

	Consulting and agency service to cemetery *RMB'000*	**Funeral arrangement service division** *RMB'000*	**Total** *RMB'000*
Revenue	5,124	10,897	16,021
Segment result	658	3,860	4,518
Unallocated income and expenses:			
– Written off of other receivables			(3,000)
Profit before income tax expense			1,518
Income tax expenses			(1,190)
Profit for the year			328

Year ended 31 December 2009

	Consulting and agency service to cemetery *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
Revenue	3,711	12,060	15,771
Segment result	446	3,812	4,258
Unallocated income and expenses:			
– Written off of other receivables			(1,500)
Profit before income tax expense			2,758
Income tax expenses			(1,220)
Profit for the year			1,538

Business segments

Nine months ended 30 September 2010

	Consulting and agency service to cemetery *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
Revenue	2,129	10,983	13,112
Segment result	(668)	4,023	3,355
Income tax expenses			(1,098)
Profit for the period			2,257

Nine months ended 30 September 2009

	Consulting and agency service to cemetery *RMB'000*	Funeral arrangement service division *RMB'000*	Total *RMB'000*
Revenue	2,314	8,075	11,019
Segment result	123	3,051	3,174
Unallocated income and expenses:			
– Written off of other receivables			(1,500)
Profit before income tax expense			1,674
Income tax expenses			(857)
Profit for the period			817

Segment assets and liabilities

	Cemetery division *RMB'000*	Funeral arrangement services division *RMB'000*	Total *RMB'000*
31 December 2007			
Assets			
Segment assets	9,981	5,697	15,678
Liabilities			
Segment liabilities	4,467	3,330	7,797
31 December 2008			
Assets			
Segment assets	11,333	5,931	17,264
Liabilities			
Segment liabilities	4,497	3,712	8,209

	Cemetery division	Funeral arrangement services division	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2009			
Assets			
Segment assets	6,234	8,328	14,562
Liabilities			
Segment liabilities	1,430	3,385	4,815
30 September 2010			
Assets			
Segment assets	7,737	11,280	19,017
Liabilities			
Segment liabilities	3,874	3,139	7,013

Geographical information

Shanghai FSY Consulting Group's operations are located in the PRC (country of domicile). All of the Shanghai FSY Consulting Group's non-current assets are located in the PRC and therefore, no geographical information has been presented.

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Carrying amount of inventories sold	2,409	3,102	2,552	2,528	3,144
Staff costs (including directors' and supervisors' remuneration)					
– Basic salaries, housing and other allowances and benefits in kind	1,955	2,514	2,670	1,604	1,944
– Defined contribution pension cost	107	243	274	204	243
Auditors' remuneration	8	8	8	–	–

7. DIRECTORS' EMOLUMENTS

None of the directors and supervisors received basic salaries, housing and other allowances and benefits in kind, defined contribution pension cost and compensation for the loss of office as a director or a supervisor of Shanghai FSY Consulting Group and Shanghai FSY Consulting in connection with the management of the affairs for the Relevant Periods.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of Shanghai FSY Consulting Group, none (2009: nil, 2008: nil, 2007: nil) are director of Shanghai FSY Consulting Group. The emoluments of the individuals are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Basic salaries, housing and other allowances and benefits in kind	328	560	560	236	317
Contribution to retirement benefit scheme	18	56	57	34	34
	346	614	617	314	314

The remuneration of the highest paid, non-director employee fell within the range of nil to RMB1,000,000.

9. INCOME TAX EXPENSE

	Year ended 31 December			**Nine months ended 30 September**	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Current tax					
– PRC enterprise income tax ("EIT")	768	999	1,020	742	1,098
– Underprovision of EIT in prior years	11	42	50	–	4
	779	1,041	1,070	742	1,098
Deferred tax *(note 15)*					
– current year	176	149	150	115	–
– attribute to increase in tax rate	153	–	–	–	–
	329	149	150	115	–
Income tax expense	1,108	1,190	1,220	857	1,098

Taxation is calculated at the rates of tax prevailing in the countries in which Shanghai FSY Consulting Group operates, based on existing legislation, interpretations and practices in respect thereof.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("New Tax Law"), which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC changed from 33% to 25% with effect from 1 January 2008. The State Council of the PRC issued the Implementation Rules of the Enterprise Income tax law ("Implementation Rules") on 6 December 2007 and GuoFa (2007) No. 39 Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Law Policies ("Circular 39") on 26 December 2007. Shanghai FSY Consulting Group is subject to tax rate of 25% from 2008 onwards.

A reconciliation between income tax expense and profit before income tax at applicable tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	4,069	1,518	2,758	1,674	3,355
Tax at applicable statutory tax rates of 33% for 2007 and 25% for 2008, 2009 and 2010 in the PRC	1,343	380	690	419	839
Underprovision in last year	11	42	50	–	–
Tax effect of expenses not deductible for tax purposes	21	768	480	423	243
Tax effects of non-taxable income	(363)	–	–	–	–
Others	96	–	–	15	16
Income tax expense	1,108	1,190	1,220	857	1,098

10. PROPERTY, PLANT AND EQUIPMENT

Shanghai FSY Consulting Group	Leasehold Improvements *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost					
Balance at 1 January 2007	–	247	200	750	1,197
Additions	–	–	506	52	558
Disposals	–	–	–	–	–
Balance at 31 December 2007 and 1 January 2008	–	247	706	802	1,755
Additions	–	–	–	41	41
Disposals	–	–	–	(3)	(3)
Balance at 31 December 2008 and 1 January 2009	–	247	706	840	1,793
Additions	–	–	365	72	437
Disposals	–	–	–	(12)	(12)
Balance at 31 December 2009 and 1 January 2010	–	247	1,071	900	2,218
Additions	1,313	–	169	65	1,547
Disposals	–	–	–	(39)	(39)
Balance at 30 September 2010	1,313	247	1,240	926	3,726

Shanghai FSY Consulting Group	Leasehold Improvements *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Accumulated depreciation and impairment loss					
Balance at 1 January 2007	–	4	73	335	412
Depreciation for the year	–	16	133	105	254
Balance at 31 December 2007 and 1 January 2008	–	20	206	440	666
Depreciation for the year	–	16	123	111	250
Disposals	–	–	–	(3)	(3)
Balance at 31 December 2008 and 1 January 2009	–	36	329	548	913
Depreciation for the year	–	16	138	100	254
Disposals	–	–	–	(12)	(12)
Balance at 31 December 2009 and 1 January 2010	–	52	467	636	1,155
Depreciation for the period	–	12	125	92	229
Disposals	–	–	–	(39)	(39)
Balance at 30 September 2010	–	64	592	689	1,345
Carrying amount					
At 31 December 2007	–	227	500	362	1,089
At 31 December 2008	–	211	377	292	880
At 31 December 2009	–	195	604	264	1,063
At 30 September 2010	–	1,496	648	237	2,381

Shanghai FSY Consulting	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost				
Balance at 1 January 2007	247	–	22	269
Additions	–	5	4	9
Balance at 31 December 2007 and 1 January 2008	247	5	26	278
Additions	–	–	4	4
Balance at 31 December 2008 and 1 January 2009	247	5	30	282
Additions	–	–	–	–
Disposals	–	–	(9)	(9)
Balance at 31 December 2009, 1 January 2010 and 30 September 2010	247	5	21	273
Accumulated depreciation and impairment loss				
Balance at 1 January 2007	4	–	5	9
Depreciation for the year	16	1	8	25
Balance at 31 December 2007 and 1 January 2008	20	1	13	34
Depreciation for the year	16	2	6	24
Balance at 31 December 2008 and 1 January 2009	36	3	19	58
Depreciation for the year	16	2	5	23
Disposals	–	–	(9)	(9)
Balance at 31 December 2009 and 1 January 2010	52	5	15	72
Depreciation for the period	13	–	3	16
Balance at 30 September 2010	65	5	18	88
Carrying amount				
At 31 December 2007	227	4	13	244
At 31 December 2008	211	2	11	224
At 31 December 2009	195	–	6	201
At 30 September 2010	182	–	3	185

11. INTEREST IN A SUBSIDIARY

	As at 31 December			As at 30 September
Shanghai FSY Consulting	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity shares, at cost	800	800	800	800

Name of entity	Place of establishment/ operation	Proportion of nominal value of paid in capital/voting power held by Shanghai FSY Consulting Group — As at 31 December 2007	2008	2009	As at 30 September 2010	Fully paid and registered capital	Principal Activities
重慶安樂殯儀服務有限公司 (Chongqing Anle Funeral Services Co., Ltd.*) ("Chongqing Anle Funeral")	PRC	80%	80%	80%	80%	RMB1,000,000	Provision of funeral arrangement services in the PRC

12. INVENTORIES

	As at 31 December			As at 30 September
Shanghai FSY Consulting Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	173	172	211	170

13. OTHER RECEIVABLES

	As at 31 December			As at 30 September
Shanghai FSY Consulting Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment for vendors	146	–	–	–
Amount due from a related company of a shareholder	2,167	–	–	–
Amounts due from shareholders	2,013	2,663	1,163	3,973
Amount due from a related party	–	–	–	7,666
Other receivables	6,797	6,607	711	52
	11,123	9,270	1,874	11,691

Shanghai FSY Consulting	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for vendors	146	–	–	–
Amounts due from shareholders	1,863	2,663	1,163	3,973
Amount due from a related party	–	–	–	7,666
Other receivables	6,566	6,504	606	5
	8,575	9,167	1,769	11,644

The balances of shareholders are unsecured, interest-free and repayable on demand.

14. TRADE AND OTHER PAYABLES

Shanghai FSY Consulting Group	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	187	170	830	785
Receipts in advance	44	15	35	35
Payroll and welfare payables	503	502	339	76
Amounts due to shareholders	357	–	–	–
Amount due to a related company*	1,005	1,000	–	–
Other payables	4,299	5,147	517	2,039
	6,395	6,834	1,721	2,935

Shanghai FSY Consulting	As at 31 December 2007	2008	2009	As at 30 September 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	–	–	643	578
Receipts in advance	44	15	35	35
Payroll and welfare payables	33	46	56	76
Amount due to a subsidiary	–	–	–	7,666
Other payables	4,244	5,107	483	2,008
	4,321	5,168	1,217	10,363

* The amount represented the balance with a subsidiary of Shanghai FSY under the management of Wang Ji Sheng, who is the shareholder of Shanghai FSY Consulting and is the key management of Shanghai FSY.

The balances of shareholders and a related company are unsecured, interest-free and repayable on demand.

15. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 September
Shanghai FSY Consulting Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	299	150	–	–

Details of the deferred tax liabilities and assets recognised and movements during the current and prior years:

Shanghai FSY Consulting Group

Assets	**Depreciation allowance and provisions**
	RMB'000
At 1 January 2007	628
(Charge)/credit to profit or loss for the year	(176)
Tax effect arising from change in applicable tax rates	(153)
At 31 December 2007	299
(Charge)/credit to profit or loss for the year	(149)
At 31 December 2008	150
(Charge)/credit to profit or loss for the year	(150)
At 31 December 2009 and 30 September 2010	–

16. PAID IN CAPITAL

	As at 31 December			As at 30 September
Shanghai FSY Consulting	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered and fully paid				
At the beginning and end of the year/period	5,000	5,000	5,000	5,000

17. CAPITAL RISK MANAGEMENT

The Shanghai FSY Consulting manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Shanghai FSY Consulting's overall strategy remains unchanged for the Relevant Periods.

The capital structure of the Shanghai FSY Consulting consists of cash and cash equivalents and equity attributable to shareholders of Shanghai FSY Consulting, comprising paid in capital, reserves and retained profits.

The directors of Shanghai FSY Consulting review the capital structure regularly. Shanghai FSY Consulting considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new paid in capital as well as raising of new debt or the repayment of existing debt.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

I. Categories of financial instruments

	As at 31 December			As at 30 September
Shanghai FSY Consulting Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Assets				
Loans and receivables:				
– Other receivables	10,977	9,270	1,874	11,691
– Cash and cash equivalents	2,994	6,792	11,414	4,775
	13,971	16,062	13,288	16,466

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Liabilities				
Amortised costs:				
Trade and other payables	6,351	6,819	1,686	2,900

	As at 31 December			As at 30 September
Shanghai FSY Consulting	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Assets				
Loans and receivables:				
– Other receivables	8,575	9,167	1,769	11,644
– Cash and cash equivalents	1,162	1,942	4,263	2,774
	9,737	11,109	6,032	14,418

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial Liabilities				
Amortised costs:				
Trade and other payables	4,277	5,153	1,182	10,328

II. Financial risk management and objective

The main risks arising from Shanghai FSY Consulting's financial instruments in the normal course of the Shanghai FSY Consulting Group's business are credit risk and liquidity risk.

(a) Liquidity risk

Shanghai FSY Consulting group entities are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by board of Shanghai FSY Consulting when the borrowing exceeds certain predetermined levels of authority. The policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The contractual maturities of non-derivative financial liabilities of Shanghai FSY Consulting Group are trade and other payables. The total contractual undiscounted cash flows of financial liabilities are approximate to the carrying amounts.

(b) Credit risk

The credit risk of the Shanghai FSY Consulting Group is primarily attributable to cash and bank deposits and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The cash and bank deposits of Shanghai FSY Consulting Group are placed with major financial institutions.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer pertaining to the economic environment in which the customer operates.

At the end of the reporting period, Shanghai FSY Consulting Group did not have concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. The Shanghai FSY Consulting Group and Shanghai FSY Consulting does not provide any guarantees which would expose to credit risk.

(c) Fair value

The directors of Shanghai FSY Consulting consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

19. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulation in PRC, the Shanghai FSY Consulting Group and Shanghai FSY Consulting participates in a defined contribution pension scheme ("the Scheme") administered by the provincial government, in respect of employees of Shanghai FSY Consulting Group and Shanghai FSY Consulting, whereby the Shanghai FSY Consulting Group and Shanghai FSY Consulting are required to make contributions to the Scheme at a rate of a percentage of the eligible employees' salaries and wages to the Scheme. The Shanghai FSY Consulting Group and Shanghai FSY Consulting remit pension fund to contribution to respective social security offices, which are responsible for the payment and liabilities relating to the pension funds.

The total costs charged to the consolidated statements of comprehensive income for year ended 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 were RMB107,000, RMB243,000, RMB274,000 and RMB243,000 respectively which represents contributions to the scheme by Shanghai FSY Consulting Group at rates specified in the rules of the scheme.

20. RESERVES

(a) Statutory reserves

In accordance with the PRC Company Law, Shanghai FSY Consulting and its subsidiary registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilized to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

(b) Distributable reserves of the Shanghai FSY Consulting

In accordance with the Articles of Association of Shanghai FSY Consulting, the accumulated profits for the purpose of profit distribution will be deemed to be the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP").

21. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for Shanghai FSY Consulting in respect of any period subsequent to 31 December 2009.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Shinewing, in respect of the unaudited pro forma financial information of the Enlarged Group.

A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

23 February 2011

The Directors
China HealthCare Holdings Limited
Unit C, 19/F, Entertainment Building
30 Queen's Road, Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China HealthCare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Section B of Appendix III of the circular of the Company dated 23 February 2011 (the "Circular"), which has been prepared by the directors of the Company (the "Directors") for illustrative purpose only, to provide information about how the proposed acquisition (the "Acquisition") of the Acquired Assets (as defined in the Circular; hereinafter referred to as the "Target Companies"; together with the Group hereinafter referred to as the "Enlarged Group") might have affected the financial information presented therein. The basis of preparation for the Unaudited Pro Forma Financial Information is set out in Section B of Appendix III to the Circular.

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2010 or any future date; and
- the results and cash flows of the Group for the year ended 31 March 2010 or any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction to the unaudited pro forma financial information of the Enlarged Group

The accompanying unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China HealthCare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and the Acquired Assets (as defined in the Circular; hereinafter referred to as the "Target Companies"; together with the Group hereinafter referred to as the "Enlarged Group") has been prepared by the directors of the Company (the "Directors") to illustrate the effect of the Group's proposed acquisition of the Target Companies at a consideration of HK$3,360,000,000 which shall be satisfied by the Company as to HK$44,000,000 in cash and HK$3,316,000,000 by the issue of the convertible notes in RMB2,858,000,000 with an initial conversion price of RMB0.344753 per conversion share (the "Convertible Notes"). The Target Companies included (i) Shanghai FSY Group; (ii) Hefei Dashushan Group; (iii) Shandong FSY; and (iv) Shanghai FSY Consulting Group (as defined in the Circular). The Target Companies are operating in the People's Republic of China (the "PRC").

The following is the Unaudited Pro Forma Financial Information of the Enlarged Group as if the Acquisition had been completed on 30 September 2010 for the unaudited pro forma consolidated statement of financial position and on 1 April 2009 for the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows assuming the Convertible Notes are not converted at the date of completion and throughout the year ended 31 March 2010.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared by the Directors based on the unaudited consolidated statement of financial position of the Group as at 30 September 2010, which has been extracted from the published interim report of the Group for the six months ended 30 September 2010 and the combined statement of financial position of the Target Companies as at 30 September 2010 as set out in Section B.5 of Appendix III to the Circular, after making pro forma adjustments relating to the Acquisition that are directly attributable to the transaction and factually supportable. The combined statement of financial position of the Target Companies is based on the audited consolidated statements of financial position of (i) Shanghai FSY Group; (ii) Hefei Dashushan Group; (iii) Shanghai FSY Consulting Group; and audited statement of financial position of Shandong FSY as at 30 September 2010 which have been extracted from the accountants' reports of the Target Companies as set out in Appendix IIA, IIB, IID and IIC respectively to the Circular.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared by the Directors based on (i) the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 March 2010 which has been extracted from the published annual report of the Group for the year ended 31 March 2010; and (ii) the combined statement of comprehensive income and the combined statement of cash flows of the Target Companies for the year ended 31 December 2009 as set out in Section B.5 of Appendix III to the Circular, after making pro forma adjustments relating to the Acquisition that are directly attributable to the transaction and factually supportable. The combined statement of comprehensive income and combined statement of cash flows of the Target Companies are based on the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of (i) Shanghai FSY Group; (ii) Hefei Dashushan Group; (iii) Shanghai FSY Consulting Group and audited statement of comprehensive income and audited statement of cash flows of Shandong FSY for the year ended 31 December 2009 which have been extracted from the accountants' reports of the Target Companies as set out in Appendix IIA, IIB, IID and IIC to the Circular.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors and based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Group upon completion of the Acquisition. As it is prepared for illustrative purpose only, it does not purport to give a true picture of the actual financial position, results and cash flow of the Enlarged Group on completion of the Acquisition. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position or results of operations of the Enlarged Group after the completion of the Acquisition.

2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group as at 30 September 2010	Combined total of the Target Companies as at 30 September 2010		Pro forma adjustments						Unaudited pro forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	
Non-current assets										
Property, plant and equipment	8,624	107,509	123,958	–	–	–	41,027	–	–	173,609
Deposit paid for acquisition of cemetery assets	–	7,299	8,416	–	–	–	–	–	–	8,416
Goodwill	32,582	16,614	19,156	78	–	–	3,161,399	–	–	3,213,215
Other intangible assets	1,747	–	–	–	–	–	–	–	–	1,747
Interests in associates	–	7,918	9,130	(1,910)	(7,220)	–	–	–	–	–
Deferred tax assets	–	2,559	2,950	–	–	–	–	–	–	2,950
	42,953	141,899	163,610	(1,832)	(7,220)	–	3,202,426	–	–	3,399,937
Current assets										
Inventories	50,672	11,103	12,802	–	–	–	–	–	–	63,474
Cemetery assets	–	322,603	371,962	–	–	–	28,619	–	–	400,581
Financial assets at fair value through profit or loss	–	266	306	–	–	–	–	–	–	306
Trade and other receivables	78,751	32,900	37,932	–	–	(13,920)	–	–	–	102,763
Restricted bank balances	90,229	–	–	–	–	–	–	–	–	90,229
Bank balances and cash	79,839	166,779	192,297	–	–	–	(44,000)	(7,150)	–	220,986
	299,491	533,651	615,299	–	–	(13,920)	(15,381)	(7,150)	–	878,339

	The Group as at 30 September 2010	Combined total of the Target Companies as at 30 September 2010		Pro forma adjustments						Unaudited pro forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	
Current liabilities										
Trade and other payables	68,788	159,856	184,313	–	–	(1,813)	–	–	–	251,288
Amounts due to directors	726	–	–	–	–	–	–	–	–	726
Derivative component of convertible bonds	2,541	–	–	–	–	–	–	–	–	2,541
Derivative component of redeemable convertible cumulative preference shares	34,521	–	–	–	–	–	–	–	95,839	130,360
Liability component of convertible bonds	49,609	–	–	–	–	–	–	–	–	49,609
Liability component of redeemable convertible cumulative preference shares	220,434	–	–	–	–	–	–	–	(136,352)	84,082
Borrowings	–	77,650	89,530	–	–	(12,107)	–	–	–	77,423
Income tax payables	222	72,357	83,428	–	–	–	–	–	–	83,650
Deferred revenue	–	7,257	8,367	–	–	–	–	–	–	8,367
	376,841	317,120	365,638	–	–	(13,920)	–	–	(40,513)	688,046
Net current (liabilities) assets	(77,350)	216,531	249,661	–	–	–	(15,381)	(7,150)	40,513	190,293
Total assets less current liabilities	(34,397)	358,430	413,271	(1,832)	(7,220)	–	3,187,045	(7,150)	40,513	3,590,230

	The Group as at 30 September 2010	Combined total of the Target Companies as at 30 September 2010		Pro forma adjustments						Unaudited pro forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	
Non-current liabilities										
Deferred tax liabilities	423	26,762	30,857	–	–	–	17,412	–	–	48,692
Deferred revenue	–	28,207	32,523	–	–	–	–	–	–	32,523
Amounts due to shareholders	–	53,918	62,167	–	–	(62,167)	–	–	–	–
Other payables	–	–	–	–	–	62,167	–	–	–	62,167
	423	108,887	125,547	–	–	–	17,412	–	–	143,382
Net (liabilities) assets	(34,820)	249,543	287,724	(1,832)	(7,220)	–	3,169,633	(7,150)	40,513	3,446,848
Capital and reserves										
Share capital	39,514	55,000	54,262	–	(1,973)	–	(52,289)	–	–	39,514
Share premium	255,028	–	–	–	–	–	–	–	–	255,028
Contributed surplus	57,124	–	–	–	–	–	–	–	–	57,124
Share options reserve	2,455	–	–	–	–	–	–	–	–	2,455
Translation reserve	9,681	–	19,119	–	(526)	–	(18,593)	–	–	9,681
Convertible bonds reserve	33,772	–	–	–	–	–	3,316,000	–	–	3,349,772
Capital reserve	–	7,137	7,042	–	–	–	(7,042)	–	–	–
PRC statutory reserve	1,047	33,058	33,320	–	(1,013)	–	(32,307)	–	–	1,047
(Accumulated losses) retained earnings	(521,644)	53,649	57,875	–	(3,708)	–	(54,167)	(7,150)	40,513	(488,281)
Equity attributable to owners of the Company	(123,023)	148,844	171,618	–	(7,220)	–	3,151,602	(7,150)	40,513	3,226,340
Non-controlling interests	88,203	100,699	116,106	(1,832)	–	–	18,031	–	–	220,508
	(34,820)	249,543	287,724	(1,832)	(7,220)	–	3,169,633	(7,150)	40,513	3,446,848

3. Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

	The Group for the year ended 31 March 2010	Combined total of the Target Companies for the year ended 31 December 2009		Pro forma adjustments								Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	*Note 9*	*Note 10*	
Revenue	2,776,413	316,183	355,701	–	–	–	–	–	–	–	–	3,132,114
Cost of sales	(2,750,762)	(77,180)	(86,825)	–	–	–	–	–	–	–	–	(2,837,587)
Gross profit	25,651	239,003	268,876	–	–	–	–	–	–	–	–	294,527
Other income	2,564	782	879	–	–	(627)	–	–	–	–	–	2,816
Selling and distribution expenses	(11,294)	(40,261)	(45,293)	–	–	–	–	–	–	–	–	(56,587)
Administrative expenses	(43,816)	(72,160)	(81,179)	–	–	–	(3,091)	(7,150)	–	–	–	(135,236)
Other operating expenses	(1,269)	(468)	(526)	–	–	–	–	–	–	–	–	(1,795)
Finance costs	(63,878)	(7,726)	(8,692)	–	–	627	–	–	–	–	34,090	(37,853)
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	(18,194)	–	–	–	–	–	–	–	–	–	18,194	–
Impairment loss recognised in respect of trade and other receivables	(3,717)	(1,500)	(1,687)	–	–	–	–	–	–	–	–	(5,404)
Gain on disposal of financial assets at fair value through profit or loss	108	327	368	–	–	–	–	–	–	–	–	476
Gain on disposal of subsidiaries	2,533	–	–	–	–	–	–	–	–	–	–	2,533
Gain on deemed disposal of a subsidiary	56	–	–	–	–	–	–	–	–	–	–	56
Fair value loss on derivative component of convertible bonds	(6,040)	–	–	–	–	–	–	–	–	–	–	(6,040)
Fair value gain on derivative component of redeemable convertible cumulative preference shares	18,871	–	–	–	–	–	–	–	–	–	–	18,871
Share of results of associates	–	2,685	3,020	(613)	(2,407)	–	–	–	–	–	–	–
(Loss) profit before tax	(98,425)	120,682	135,766	(613)	(2,407)	–	(3,091)	(7,150)	–	–	52,284	76,364

	The Group for the year ended 31 March 2010	Combined total of the Target Companies for the year ended 31 December 2009		Pro forma adjustments								Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	*Note 9*	*Note 10*	
Income tax (expense) credit	(386)	(28,448)	(32,003)	–	–	–	773	–	–	–	–	(31,616)
(Loss) profit for the year	(98,811)	92,234	103,763	(613)	(2,407)	–	(2,318)	(7,150)	–	–	52,284	44,748
Other comprehensive income (expense)												
Exchange differences arising on translation	2,388	–	392	(1)	–	–	–	–	–	–	–	2,779
Release of exchange differences upon disposal of subsidiaries	102	–	–	–	–	–	–	–	–	–	–	102
Other comprehensive income (expense) for the year	2,490	–	392	(1)	–	–	–	–	–	–	–	2,881
Total comprehensive (expense) income for the year	(96,321)	92,234	104,155	(614)	(2,407)	–	(2,318)	(7,150)	–	–	52,284	47,629
(Loss) profit for the year attributable to												
– Owners of the Company	(89,695)	85,081	95,716	–	(7,222)	–	(2,081)	(7,150)	83	662	52,284	42,597
– Non-controlling interests	(9,116)	7,153	8,047	(613)	4,815	–	(237)	–	(83)	(662)	–	2,151
	(98,811)	92,234	103,763	(613)	(2,407)	–	(2,318)	(7,150)	–	–	52,284	44,748
Total comprehensive (expense) income attributable to												
– Owners of the Company	(87,605)	85,081	95,948	–	(7,233)	–	(2,081)	(7,150)	93	664	52,284	44,920
– Non-controlling interests	(8,716)	7,153	8,207	(614)	4,826	–	(237)	–	(93)	(664)	–	2,709
	(96,321)	92,234	104,155	(614)	(2,407)	–	(2,318)	(7,150)	–	–	52,284	47,629

4. Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

	The Group for the year ended 31 March 2010	Combined total of the Target Companies for the year ended 31 December 2009		Pro forma adjustments							Unaudited pro forma consolidated statement of cash flows of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	*Note 11*	
OPERATING ACTIVITIES											
(Loss) profit before tax	(98,425)	120,682	135,766	(613)	(2,407)	–	(3,091)	(7,150)	52,284	–	76,364
Adjustments for:											
Finance costs	63,878	7,726	8,692	–	–	(627)	–	–	(34,090)	–	37,853
Interest income	(725)	(886)	(996)	–	–	627	–	–	–	–	(1,094)
Amortisation of other intangible assets	314	–	–	–	–	–	–	–	–	–	314
Depreciation	4,434	11,749	13,218	–	–	–	3,091	–	–	–	20,743
Dividend income	(3)	–	–	–	–	–	–	–	–	–	(3)
Impairment losses recognised in respect of trade and other receivables	3,717	1,500	1,687	–	–	–	–	–	–	–	5,404
Impairment losses recognised in respect of obsolete inventories	1	–	–	–	–	–	–	–	–	–	1
Fair value loss on derivative component of convertible bonds	6,040	–	–	–	–	–	–	–	–	–	6,040
Fair value gain on derivative component of redeemable convertible cumulative preference shares	(18,871)	–	–	–	–	–	–	–	–	–	(18,871)
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	18,194	–	–	–	–	–	–	–	(18,194)	–	–
Gain on deemed disposal of a subsidiary	(56)	–	–	–	–	–	–	–	–	–	(56)
Gain on disposal of subsidiaries	(2,533)	–	–	–	–	–	–	–	–	–	(2,533)
Gain on disposal of financial assets at fair value through profit or loss	(108)	(327)	(368)	–	–	–	–	–	–	–	(476)
Loss on disposal of property, plant and equipment	564	56	63	–	–	–	–	–	–	–	627
Loss on written off of interest in an associate	1	–	–	–	–	–	–	–	–	–	1
Share of results of associates	–	(2,685)	(3,020)	613	2,407	–	–	–	–	–	–
Operating cash flows before movements in working capital	(23,578)	137,815	155,042	–	–	–	–	(7,150)	–	–	124,314

	The Group for the year ended 31 March 2010	Combined total of the Target Companies for the year ended 31 December 2009		Pro forma adjustments								Unaudited pro forma consolidated statement of cash flows of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	*Note 11*	
Decrease in inventories	3,634	2,728	3,072	–	–	–	–	–	–	–	6,706
Increase in trade and other receivables	(3,558)	(18,596)	(20,948)	–	–	1,285	–	–	–	–	(23,221)
Increase (decrease) in trade and other payables	2,739	(63,121)	(71,103)	–	–	(1,285)	–	–	–	–	(69,649)
Increase in cemetery assets	–	(308)	(347)	–	–	–	–	–	–	–	(347)
Increase in deferred revenue	–	5,187	5,843	–	–	–	–	–	–	–	5,843
Cash (used in) from operations	(20,763)	63,705	71,559	–	–	–	–	(7,150)	–	–	43,646
Income tax paid	(397)	(8,487)	(9,549)	–	–	–	–	–	–	–	(9,946)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(21,160)	55,218	62,010	–	–	–	–	(7,150)	–	–	33,700
INVESTING ACTIVITIES											
Purchase of property, plant and equipment	(1,850)	(33,309)	(37,521)	–	–	–	–	–	–	–	(39,371)
Net cash (outflow) inflow on acquisition of subsidiaries	(816)	–	–	–	–	–	–	–	–	50,498	49,682
Net cash outflow on disposal of subsidiaries	(98)	–	–	–	–	–	–	–	–	–	(98)
Proceeds from disposal of financial assets at fair value through profit or loss	164	1,103	1,242	–	–	–	–	–	–	–	1,406
Proceeds from disposals of property, plant and equipment	–	298	336	–	–	–	–	–	–	–	336
Interest received	725	886	996	–	–	(627)	–	–	–	–	1,094
Dividend received	3	2,000	2,250	–	–	(2,250)	–	–	–	–	3
Investment in financial assets at fair value through profit or loss	–	(890)	(1,003)	–	–	–	–	–	–	–	(1,003)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,872)	(29,912)	(33,700)	–	–	(2,877)	–	–	–	50,498	12,049

	The Group for the year ended 31 March 2010	Combined total of the Target Companies for the year ended 31 December 2009		Pro forma adjustments							Unaudited pro forma consolidated statement of cash flows of the Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 10*	*Note 11*	
FINANCING ACTIVITIES											
Proceeds from issue of convertible preference shares by a subsidiary	388	–	–	–	–	–	–	–	–	–	388
Proceeds from new borrowings	34,200	42,922	48,350	–	–	–	–	–	–	–	82,550
Repayment of borrowings	–	(54,050)	(60,884)	–	–	–	–	–	–	–	(60,884)
Interest paid	–	(6,923)	(7,789)	–	–	627	–	–	–	–	(7,162)
Increase in amounts due to directors	3,968	–	–	–	–	–	–	–	–	–	3,968
Dividend paid	–	(61,487)	(69,172)	–	–	2,250	–	–	–	–	(66,922)
Repayment of loan by a related company of non-controlling interest	–	92,000	103,633	–	–	–	–	–	–	–	103,633
NET CASH FROM FINANCING ACTIVITIES	38,556	12,462	14,138	–	–	2,877	–	–	–	–	55,571
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,524	37,768	42,448	–	–	–	–	(7,150)	–	50,498	101,320
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,178	–	556	–	–	–	–	–	–	–	2,734
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	156,433	84,029	94,498	–	–	–	–	–	–	(94,498)	156,433
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	174,135	121,797	137,502	–	–	–	–	(7,150)	–	(44,000)	260,487
Analysis of cash and cash equivalents:											
Restricted bank balances	153,894	–	–	–	–	–	–	–	–	–	153,894
Bank balances and cash	20,241	121,797	137,502	–	–	–	–	(7,150)	–	(44,000)	106,593
	174,135	121,797	137,502	–	–	–	–	(7,150)	–	(44,000)	260,487

Notes:

1. The unaudited consolidated statement of financial position of the Group as at 30 September 2010 is extracted from the unaudited consolidated interim financial information of the Group for the six months ended 30 September 2010. The audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 March 2010 are extracted from the audited consolidated financial statements of the Group for the year ended 31 March 2010.

2. Information is extracted from the combined statement of financial position of the Target Companies as at 30 September 2010, combined statement of comprehensive income and combined statement of cash flows of the Target Companies for the year ended 31 December 2009 respectively as set out in Section B.5 of Appendix III to the Circular. The combined financial information of the Target Companies is based on the audited financial information of the Target Companies extracted from the accountants' report of the Target Companies as set out in Appendix IIA, IIB, IIC and IID to the Circular.

   The audited financial information was translated to Hong Kong dollars at translation rates of RMB100 = HK$115.3 in the combined statement of financial position and RMB100 = HK$112.498 in the combined statement of comprehensive income and combined statement of cash flows.

3. The adjustments represent the reversal of 20% equity interest in Chongqing Anle Funeral Services Co., Ltd.. Shanghai FSY Group records this 20% equity interest as interests in associates of HK$1,910,000 and Shanghai FSY Consulting Group records it as non-controlling interests of HK$1,832,000 as at 30 September 2010. Chongqing Anle Funeral Services Co., Ltd. will become a wholly-owned subsidiary of the Enlarged Group. The goodwill of HK$78,000 included in interest in an associate is treated as goodwill of the Enlarged Group upon completion of the Acquisition.

   Accordingly, the share of result of an associate and profit attributable to the non-controlling interests for the year ended 31 December 2009 of Chongqing Anle Funeral Services Co., Ltd. amount to HK$613,000 and the exchange difference arising on translation amount to HK$1,000 will be reversed as if the Acquisition had been completed at the beginning of the year. The adjustments have continuing effect on the pro forma consolidated statement of comprehensive income of Enlarged Group.

4. The adjustments represent the reversal of 20% equity interest in Hefei Dashushan Group. Shanghai FSY Group records this 20% equity interest as interests in associates of HK$7,220,000 as at 30 September 2010. Hefei Dashushan Group will become a 60% owned subsidiary of the Enlarged Group upon completion of the Acquisition.

   The share capital, translation reserve, PRC statutory reserve and retained earnings of approximately HK$1,973,000, HK$526,000, HK$1,013,000 and HK$3,708,000 respectively of Hefei Dashushan Group will be eliminated as if the Acquisition had been completed as at 30 September 2010.

   Accordingly, the share of result of an associate amount to HK$2,407,000 will be reversed and 40% profit for the year ended 31 December 2009 of Hefei Dashushan Group amounting HK$4,815,000 will be attributable to the non-controlling interests as if the Acquisition had been completed at the beginning of the year. The adjustment to total comprehensive income of HK$4,826,000 represents 40% of total comprehensive income of Hefei Dashushan Group of HK$12,066,000 attributable to the non-controlling interests as if the Acquisition had been completed at the beginning of the year. The adjustment related to non-controlling interests has continuing effect on the pro forma consolidated statement of comprehensive income of Enlarged Group.

5. This represents the elimination of (i) intra-group current accounts between the other receivables of Shanghai FSY Group of HK$13,920,000; and the other payables and borrowings of Shandong FSY of HK$1,726,000 and HK$12,107,000 respectively and other payables of Hefei Dashushan Group of HK$87,000 and (ii) the corresponding interest income of Shanghai FSY Group and interest expense of Shandong FSY of HK$627,000; and the amounts due to shareholders of the Target Companies of HK$ 62,167,000 is reclassified as other payables upon completion of the Acquisition.

   Transactions eliminated in the pro forma consolidated statement of cash flows are: (i) the decrease in movement of the current account balance of HK$1,285,000 during the year; and (ii) the dividend of HK$2,250,000 received by Shanghai FSY Group from Hefei Dashushan Group. The adjustment has no continuing effect on the pro forma consolidated statement of cash flows of the Enlarged Group.

6. The adjustments represent the acquisition of the Target Companies by the Group for consideration of HK$3,360,000,000 to be satisfied as to: (i) HK$44,000,000 in cash and (ii) HK$3,316,000,000 by the issue of the Convertible Notes.

   Pursuant to the sales and purchase agreement of the Acquisition, the consideration of HK$3,360,000,000 is subject to the adjustment based on the consolidated net profit of the Acquired Assets not less than HK$200,000,000 for twelve months ended 31 December 2010 ("2010 Target Profit"). The consideration shall be reduced by such amount equal to the shortfall in the 2010 Target Profit multiplied by 16.8 and limited to HK$3,360,000,000. For the purpose of the Unaudited Pro Forma Financial Information, the Directors assume that the 2010 Target Profit will be achieved and considered that the consideration shall not be adjusted accordingly. The consideration would be adjusted if the 2010 Target Profit cannot be met.

   (a) Adjustment to convertible bonds reserve of HK$3,316,000,000

      HK$3,316,000,000 of the consideration is to be satisfied by the Convertible Notes. The Convertible Notes are denominated in RMB which is same with the functional currency of the Company with an aggregate principal amount of RMB2,858,000,000 carries zero coupon rate and entitle the holders to convert the notes into new ordinary shares of the Company which fixed the conversion price at RMB0.344753 per share during the conversion period. In addition, if the Convertible Notes remain outstanding on the maturity date, the Company will redeem the remaining principal amount of the Convertible Notes at 100% by issuance of new ordinary shares of the Company at RMB0.344753 per share. The number of new ordinary shares of the Company can be converted are fixed and the principal amounts of the Convertible Notes are also fixed. The Convertible Notes are classified as equity and recorded in the convertible bonds reserve.

      The Convertible Notes shall be freely transferrable. The conversion and redemption are subjected to the restriction of: (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the entire issued shares of the Company (or in such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the new shares of the Company upon conversion or redemption of the Convertible Notes will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules. In the event that any part of the outstanding Convertible Notes cannot be redeemed by issuance of new shares of the Company due to the abovementioned restrictions, the redemption of the remaining balance of the outstanding Convertible Notes shall be postponed to the earliest possible time.

(b) Adjustments to property, plant and equipment, cemetery assets and deferred tax liabilities of HK$41,027,000, HK$28,619,000 and HK$17,412,000 respectively

In accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations", the Group will apply the purchase method to account for the acquisition of the equity interest of the Target Companies. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Companies will be recorded on the consolidated statement of financial position of the Group at their fair values at the date of acquisition. The fair values of the identifiable assets, liabilities and contingent liabilities of the Target Companies will be reassessed upon the completion of the Acquisition.

The adjustments represent the fair value adjustment of the assets and liabilities of the Target Companies over their carrying value as at 30 September 2010 and the corresponding deferred tax liabilities. The values of the property, plant and equipment and cemetery assets are increased by HK$41,027,000 and HK$28,619,000 respectively. The valuation of the fair values was carried out by Ascent Partners Transaction Service Limited, an independent qualified professional valuer not connected to the Group. The valuation is used as a reference for the purpose of this Pro Forma Financial Information only. Deferred tax liability on the fair value adjustment, calculated at the income tax rate of 25%, amounts to HK$17,412,000 and the portion of the net valuation surplus attributable to the non-controlling interests amounts to HK$11,103,000.

The calculation of the fair value adjustment of the property, plant and equipment and cemetery assets of the Target Companies as at 30 September 2010 is as follow:

	Fair value per the valuation report	**Carrying amounts per the combined total of the Target Companies**	**Fair value adjustment**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	164,985	123,958	41,027
Cemetery assets[#]	400,581	371,962	28,619
	565,566	495,920	69,646
Less:			
Deferred tax liabilities on fair value adjustment			(17,412)
Fair value adjustment on the identifiable net assets of the Target Companies			52,234
The fair value adjustment on the identifiable net assets of the Target Companies attributable to:			
– Owners of the Enlarged Group			41,131
– Non-controlling interests of the Enlarged Group			11,103
			52,234

\# Cemetery assets represent costs and premium on land use rights and related improvement that directly attributable to development and construction of cemetery. Cemetery assets are transferred to costs of sales when they are sold.

After recognition of the fair value and the corresponding deferred tax liability, additional depreciation on the property, plant and equipment and the amortisation of deferred tax liability in the portion of fair value increased are charged to statement of comprehensive income. The calculation is as follows:

The depreciation rate and amortisation rate for the year is ranged from 3% to 10% per annum. The additional depreciation for the year ended 31 December 2009 of HK$3,091,000 is calculated by 3% to 10% for the fair value adjustment of HK$41,027,000 on property, plant and equipment. The deferred tax liability for the increase of HK$41,027,000 is HK$10,257,000 based on the tax rate of 25%. The additional amortisation of deferred tax liability for the year ended 31 December 2009 of HK$773,000 is calculated by 3% to 10% for the deferred tax liability of HK$10,257,000 which related to the fair value adjustment of property, plant and equipment. The net loss on the profit or loss is HK$ 2,318,000, of which, HK$2,081,000 is attributable to owners and HK$237,000 is attributable to non-controlling interests. This adjustment has continuing effect on the pro forma consolidated statement of comprehensive income of the Enlarged Group.

(c) Adjustment to goodwill

Goodwill of approximately HK$3,161,399,000 will arise from the Acquisition, which is the difference between the consideration and the fair value of the net assets attributable to the owners of the Target Companies acquired as at 30 September 2010.

The calculation of the goodwill is as follows:

	HK$'000
Fair value of consideration	3,360,000
Non-controlling interests' proportionate share of the Target Companies' identifiable net assets *(Note 6(d))*	132,305
	3,492,305
Less: Consolidated identifiable net assets of the Target Companies, at fair value	(330,906)
Goodwill	3,161,399

The calculation of the fair values of identifiable net assets of the Target Companies upon acquisition is as follows:

	HK$'000
Combined identifiable net assets of the Target Companies as at 30 September 2010	287,724
Less:	
Net effect on identifiable net assets of the Company in respect of adjustments for reversal of 20% equity interest in Chongqing Anle Funeral Services Co., Ltd. *(Note 3)*	(1,832)
Net effect on identifiable net assets of the Company in respect of adjustments for reversal of 20% equity interest in Hefei Dashushan Group *(Note 4)*	(7,220)
	278,672
Add:	
Fair value adjustment on the identifiable net assets of the Target Companies *(Note 6(b))*	52,234
Consolidated identifiable net assets of the Target Companies, at fair value	330,906

(d) Adjustments to non-controlling interests, capital and reserves

The non-controlling interests' proportionate share of the Target Companies' identifiable net assets of HK$132,305,000 comprises the following:

	HK$'000
Non-controlling interests of the Target Companies before completion of the re-organisation:	
Shanghai FSY Group	114,274
Shanghai FSY Consulting Group	1,832
	116,106
Less:	
Reversal of 20% non-controlling interests of Chongqing Anle Funeral Services Co., Ltd. *(Note 3)*	(1,832)
Non-controlling interests of the Target Companies after completion of the re-organisation	114,274
Add: additional non-controlling interests arising from the acquisition:	
Recognition of 40% non-controlling interests of Hefei Dashushan Group arise upon completion of the Acquisition *(Note i)*	14,440
Recognition of 50% non-controlling interests of Shandong FSY in debit balance upon completion of the Acquisition *(Note ii)*	(5,661)
Less: elimination of 10% non-controlling interests of Chongqing Anle Services Co., Ltd. upon completion of the Acquisition *(Note iii)*	(1,851)
Add: fair value adjustment on the net assets attributable to the non-controlling interests of the Target Companies *(Note 6(b))*	11,103
	18,031
Non-controlling interest of the Target Companies after completion of the Acquisition, at fair value	132,305

(i) This represents 40% net assets value of Hefei Dashushan Group of HK$14,440,000.

(ii) This represents 50% net liabilities of Shandong FSY amount to HK$5,661,000. Shandong FSY is treated as a subsidiary of the Enlarged Group as the Company can obtain the controlling power of the board of directors of Shandong FSY upon completion of the Acquisition.

(iii) This represents 10% non-controlling interests of Chongqing Anle Services Co., Ltd. of HK$1,851,000 which calculated by 10% of the net assets value of Chongqing Anle Services Co., Ltd. amounting HK$18,510,000 recorded in the audited consolidated statement of financial position of Shanghai FSY Group.

The share capital and the pre-acquisition reserve of the Target Companies will be eliminated as if the Acquisition had been completed as at 30 September 2010 and the breakdown is as following:

	Combined total of the Target Companies as at 30 September 2010	**Reversal of 20% equity interest in Hefei Dashushan Group**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
		Note 4	
Share capital	54,262	(1,973)	52,289
Translation reserve	19,119	(526)	18,593
Capital reserve	7,042	–	7,042
PRC statutory reserve	33,320	(1,013)	32,307
Retained earnings	57,875	(3,708)	54,167
Total	171,618	(7,220)	164,398

On completion of the Acquisition, the fair value of the consideration and the net identifiable assets and liabilities of the Target Companies will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated on the basis stated above for the purpose of preparation of the Unaudited Pro Forma Financial Information.

7. This represents the legal and professional fees of approximately HK$7,150,000 which are directly attributable to the Acquisition. This adjustment has no continuing effect on the pro forma consolidated statement of comprehensive income of the Enlarged Group.

8. This represents the allocation of loss of HK$83,000 and the exchange difference arising on translation of HK$10,000 attributable to 50% non-controlling interests of Shandong FSY for the year ended 31 December 2009 as if the Acquisition had been completed on the beginning of the year. This adjustment has continuing effect on the pro forma consolidated statement of comprehensive income of Enlarged Group.

9. This represents the reversal of the share of profit of HK$662,000 and the exchange difference arising on translation of HK$2,000 attributable to 10% non-controlling interests of Chongqing Anle Services Co., Ltd. for the year ended 31 December 2009 as it becomes a wholly-owned subsidiary of the Enlarged Group as if the Acquisition had been completed on the beginning of the year. This adjustment has continuing effect on the pro forma consolidated statement of comprehensive income of Enlarged Group.

10. This represents the cancellation of the early redemption obligation (the "Claims") over the redeemable convertible cumulative preference shares ("CPS"). In accordance with the sale and purchase agreement of the Acquisition, one of the completion conditions is that the holder of CPS should have agreed to issue a written confirmation in an agreed form to the Company waiving all claims it may have against the Company and agreeing to the consummation of the Acquisition.

The adjustment to derivative component of redeemable convertible cumulative preference shares of HK$95,839,000 represents the fair value increase of the derivative component of CPS. The adjustment to the liability component of redeemable convertible cumulative preference shares of HK$136,352,000 represents the gain on recalculation of liability component of CPS. The fair values of the derivative and liability components of CPS as at 30 September 2010 as if the Claims had been waived were carried out by Avista Valuation Advisory Limited, an independent qualified professional valuer not connected to the Group. The valuation is used as a reference for the purpose of this Pro Forma Financial Information only and assuming that the Claims had been waived as at 30 September 2010. The net gain on the revaluation of CPS of HK$40,513,000 is adjusted to retained earnings. The fair value of CPS may be different from that estimation as at 30 September 2010 when the waiver of the Claims is actually effective.

The adjustment to finance costs of HK$34,090,000 represents the reduction of imputed interest of CPS as if the Claims had been waived at the beginning of the year. The adjustment on the loss on recalculation of liability component of redeemable convertible cumulative preference shares of HK$18,194,000 represents the reversal of such loss as if the Claims had been waived at the beginning of the year. It is assumed that the change in fair value of the derivative component of CPS for the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is as same as that in the annual report of the Company for the year ended 31 March 2010. The effect of the waiver of the Claims on profit or loss may be different when the waiver othe Claims is actually effective.

11. For the purpose of unaudited pro forma consolidated statement of cash flows, the net cash inflow arising on acquisition is calculated as follow:

	HK$'000
Net cash inflow arising on acquisition:	
Consideration to be satisfied by cash *(Note 6)*	(44,000)
Add: Cash and cash equivalents acquired in the Acquisition at the beginning of the year	94,498
	50,498

12. The Directors have reviewed the carrying value of goodwill of the Enlarged Group in accordance with Hong Kong Accounting Standard 36 Impairment of Assets ("HKAS 36"), taking into account the independent valuation report, carried out by Ascent Partners Transaction Service Limited, an independent qualified professional valuer not connected to the Group. Based on the valuation report, the Directors are of the opinion that there are no indications that the values of the goodwill of the Enlarged Group may be impaired.

In accordance with HKAS 36, the Directors will carry out impairment review of the goodwill of the Enlarged Group with reference to an independent valuation report, which will be prepared under the same principal assumptions and valuation method in the future financial statements.

13. No adjustments have been made to reflect any trading results or other transactions of the Group or of the Target Companies subsequent to 31 March 2010 and 30 September 2010 respectively.

5. Combined financial information of the Target Companies

(1) Combined statement of financial position of the Target Companies as at 30 September 2010

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
Non-current assets										
Property, plant and equipment	92,828	107,031	7,537	8,690	4,763	5,492	2,381	2,745	107,509	123,958
Deposit paid for acquisition of cemetery assets	7,299	8,416	–	–	–	–	–	–	7,299	8,416
Goodwill	16,614	19,156	–	–	–	–	–	–	16,614	19,156
Interests in associates	7,918	9,130	–	–	–	–	–	–	7,918	9,130
Deferred tax assets	1,342	1,547	–	–	1,217	1,403	–	–	2,559	2,950
	126,001	145,280	7,537	8,690	5,980	6,895	2,381	2,745	141,899	163,610
Current assets										
Inventories	10,052	11,590	706	815	175	201	170	196	11,103	12,802
Cemetery assets	231,319	266,711	4,182	4,822	87,102	100,429	–	–	322,603	371,962
Financial assets at fair value through profit or loss	100	115	166	191	–	–	–	–	266	306
Trade and other receivables	18,477	21,304	235	271	2,497	2,878	11,691	13,479	32,900	37,932
Cash and cash equivalents	122,455	141,191	38,438	44,319	1,111	1,281	4,775	5,506	166,779	192,297
	382,403	440,911	43,727	50,418	90,885	104,789	16,636	19,181	533,651	615,299

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
Current liabilities										
Trade and other payables	91,196	105,149	10,214	11,776	55,511	64,004	2,935	3,384	159,856	184,313
Borrowings	29,950	34,532	–	–	47,700	54,998	–	–	77,650	89,530
Income tax payable	64,377	74,227	3,902	4,499	–	–	4,078	4,702	72,357	83,428
Deferred revenue	5,950	6,860	1,104	1,273	203	234	–	–	7,257	8,367
	191,473	220,768	15,220	17,548	103,414	119,236	7,013	8,086	317,120	365,638
Net current assets (liabilities)	190,930	220,143	28,507	32,870	(12,529)	(14,447)	9,623	11,095	216,531	249,661
Total assets less current liabilities	316,931	365,423	36,044	41,560	(6,549)	(7,552)	12,004	13,840	358,430	413,271
Non-current liabilities										
Deferred revenue	20,201	23,292	4,737	5,462	3,269	3,769	–	–	28,207	32,523
Deferred tax liabilities	26,762	30,857	–	–	–	–	–	–	26,762	30,857
Amounts due to shareholders	53,918	62,167	–	–	–	–	–	–	53,918	62,167
	100,881	116,316	4,737	5,462	3,269	3,769	–	–	108,887	125,547
Net assets (liabilities)	216,050	249,107	31,307	36,098	(9,818)	(11,321)	12,004	13,840	249,543	287,724
Capital and reserves										
Share capital	30,000	29,597	10,000	9,866	10,000	9,866	5,000	4,933	55,000	54,262
Translation reserve	–	16,691	–	2,624	–	(1,408)	–	1,212	–	19,119
Capital reserve	7,137	7,042	–	–	–	–	–	–	7,137	7,042
PRC statutory reserve	27,558	27,726	5,000	5,067	–	–	500	527	33,058	33,320
Retained earnings (accumulated losses)	52,245	53,777	16,307	18,541	(19,818)	(19,779)	4,915	5,336	53,649	57,875
Equity attributable to Owners of the Company	116,940	134,833	31,307	36,098	(9,818)	(11,321)	10,415	12,008	148,844	171,618
Non-controlling interests	99,110	114,274	–	–	–	–	1,589	1,832	100,699	116,106
	216,050	249,107	31,307	36,098	(9,818)	(11,321)	12,004	13,840	249,543	287,724

(2) Combined statement of comprehensive income of the Target Companies for the year ended 31 December 2009

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
Revenue	252,071	283,576	32,977	37,099	15,364	17,284	15,771	17,742	316,183	355,701
Cost of sales	(59,403)	(66,827)	(7,594)	(8,543)	(4,203)	(4,728)	(5,980)	(6,727)	(77,180)	(86,825)
Gross profit	192,668	216,749	25,383	28,556	11,161	12,556	9,791	11,015	239,003	268,876
Other income	260	292	522	587	–	–	–	–	782	879
Selling and distribution expenses	(29,155)	(32,799)	(4,147)	(4,665)	(4,111)	(4,625)	(2,848)	(3,204)	(40,261)	(45,293)
Administrative expenses	(57,422)	(64,599)	(7,801)	(8,776)	(4,252)	(4,783)	(2,685)	(3,021)	(72,160)	(81,179)
Other expenses	(468)	(526)	–	–	–	–	–	–	(468)	(526)
Written off of other receivables	–	–	–	–	–	–	(1,500)	(1,687)	(1,500)	(1,687)
Gain on disposal of financial assets at fair value through profit or loss	–	–	327	368	–	–	–	–	327	368
Share of results of associates	2,685	3,020	–	–	–	–	–	–	2,685	3,020
Finance costs	(4,977)	(5,599)	–	–	(2,749)	(3,093)	–	–	(7,726)	(8,692)
Profit before tax	103,591	116,538	14,284	16,070	49	55	2,758	3,103	120,682	135,766
Income tax expense	(23,447)	(26,377)	(3,584)	(4,032)	(197)	(222)	(1,220)	(1,372)	(28,448)	(32,003)
Profit (loss) for the year	80,144	90,161	10,700	12,038	(148)	(167)	1,538	1,731	92,234	103,763
Other comprehensive income (expense)										
Exchange differences arising on translation	–	367	–	28	–	(20)	–	17	–	392
Total comprehensive income (expense) for the year	80,144	90,528	10,700	12,066	(148)	(187)	1,538	1,748	92,234	104,155
Profit (loss) for the year attributable to:										
– Owners of the Company	73,536	82,727	10,700	12,038	(148)	(167)	993	1,118	85,081	95,716
– Non-controlling interests	6,608	7,434	–	–	–	–	545	613	7,153	8,047
	80,144	90,161	10,700	12,038	(148)	(167)	1,538	1,731	92,234	103,763
Total comprehensive income (expense) for the year attributable to:										
– Owners of the Company	73,536	82,935	10,700	12,066	(148)	(187)	993	1,134	85,081	95,948
– Non-controlling interests	6,608	7,593	–	–	–	–	545	614	7,153	8,207
	80,144	90,528	10,700	12,066	(148)	(187)	1,538	1,748	92,234	104,155

(3) Combined statement of cash flows of the Target Companies for the year ended 31 December 2009

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
OPERATING ACTIVITIES										
Profit before tax	103,591	116,538	14,284	16,070	49	55	2,758	3,103	120,682	135,766
Adjustment for:										
Depreciation	10,118	11,383	878	988	499	561	254	286	11,749	13,218
Loss on disposal of property, plant and equipment	54	61	–	–	2	2	–	–	56	63
Share of results of associates	(2,685)	(3,020)	–	–	–	–	–	–	(2,685)	(3,020)
Gain on disposal of financial assets at fair value through profit or loss	–	–	(327)	(368)	–	–	–	–	(327)	(368)
Written off of other receivables	–	–	–	–	–	–	1,500	1,687	1,500	1,687
Finance costs	4,977	5,599	–	–	2,749	3,093	–	–	7,726	8,692
Interest income	(386)	(434)	(500)	(562)	–	–	–	–	(886)	(996)
Operating cash flows before movements in working capital	115,669	130,127	14,335	16,128	3,299	3,711	4,512	5,076	137,815	155,042
Decrease (increase) in inventories	122	137	(116)	(131)	2,761	3,110	(39)	(44)	2,728	3,072
(Increase) decrease in trade and other receivables	(26,078)	(29,376)	106	119	1,480	1,667	5,896	6,642	(18,596)	(20,948)
(Decrease) increase in trade and other payables	(60,142)	(67,747)	2,089	2,353	45	51	(5,113)	(5,760)	(63,121)	(71,103)
Decrease (increase) in cemetery assets	1,841	2,074	790	890	(2,939)	(3,311)	–	–	(308)	(347)
Increase in deferred revenue	3,600	4,055	940	1,059	647	729	–	–	5,187	5,843
Cash from operations	35,012	39,270	18,144	20,418	5,293	5,957	5,256	5,914	63,705	71,559

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
Income tax paid	(5,189)	(5,838)	(3,101)	(3,489)	–	–	(197)	(222)	(8,487)	(9,549)
NET CASH FROM OPERATING ACTIVITIES	29,823	33,432	15,043	16,929	5,293	5,957	5,059	5,692	55,218	62,010
INVESTING ACTIVITIES										
Interest received	386	434	500	562	–	–	–	–	886	996
Dividend received	2,000	2,250	–	–	–	–	–	–	2,000	2,250
Proceeds from disposals of property, plant and equipment	298	336	–	–	–	–	–	–	298	336
Proceeds from disposal of financial assets at fair value through profit or loss	–	–	1,103	1,242	–	–	–	–	1,103	1,242
Purchase of property, plant and equipment	(32,274)	(36,355)	(387)	(436)	(211)	(238)	(437)	(492)	(33,309)	(37,521)
Investment in financial assets at fair value through profit or loss	–	–	(890)	(1,003)	–	–	–	–	(890)	(1,003)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(29,590)	(33,335)	326	365	(211)	(238)	(437)	(492)	(29,912)	(33,700)

	Shanghai FSY Group		Hefei Dashushan Group		Shandong FSY		Shanghai FSY Consulting Group		Combined total of the Target Companies	
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*
FINANCING ACTIVITIES										
Dividend paid	(50,787)	(57,135)	(10,700)	(12,037)	–	–	–	–	(61,487)	(69,172)
Interest paid	(4,174)	(4,696)	–	–	(2,749)	(3,093)	–	–	(6,923)	(7,789)
Repayment of loan by a related company of non-controlling interest	92,000	103,633	–	–	–	–	–	–	92,000	103,633
Proceeds from new borrowings	30,000	33,794	–	–	12,922	14,556	–	–	42,922	48,350
Repayment of borrowings	(40,050)	(45,114)	–	–	(14,000)	(15,770)	–	–	(54,050)	(60,884)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	26,989	30,482	(10,700)	(12,037)	(3,827)	(4,307)	–	–	12,462	14,138
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,222	30,579	4,669	5,257	1,255	1,412	4,622	5,200	37,768	42,448
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	173	–	54	–	6	–	323	–	556
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	47,432	53,342	27,731	31,186	2,074	2,332	6,792	7,638	84,029	94,498
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	74,654	84,094	32,400	36,497	3,329	3,750	11,414	13,161	121,797	137,502

The following is the text of a report, summary of values and valuation certificates, prepared for the sole purpose of inclusion in this circular, received from the independent valuer, Ascent Partners, in respect of the valuation as at 30 November 2010 of the property interests of the Enlarged Group.

ASCENT PARTNERS
Together We Flourish

Suite 2102, 21/F, Hong Kong Trade Centre,
161-167 Des Voeux Road Central,
Hong Kong
Tel: 3679-3890
Fax: 3586-0683

Date: 23 February 2011

The Board of Directors
China HealthCare Holdings Limited
Unit C, 19/F Entertainment Building,
30 Queen's Road, Central,
Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with the instructions of China HealthCare Holdings Limited (the "Company") for us to value various properties in which the Company and its subsidiaries, Shanghai Fu Shou Yuan Industry Development Co., Ltd. (the "Target Company"), Shanghai Nanyuan Industry Development Co., Ltd., Shanghai Fu Shou Yuan Consulting & Management Co., Ltd., Henan Fu Shou Yuan Industry Co., Ltd., Chongqing Anle Services Co., Ltd., Chongqing Anle Funeral Service Co., Ltd., Shandong Fu Shou Yuan Development Co., Ltd., Hefei Dashushan Culture Cemetery Co., Ltd., Hefei Renben Funeral Service Co., Ltd. and Hefei Huazhijian Co., Ltd. (hereinafter together referred to as the "Target Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 November 2010 (referred to as the "Valuation Date").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of each of the properties represents its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

PROPERTY INTERESTS CATEGORISATION

The property interests are categorised as follows:

Group I – Property held and occupied by the Target Group in the PRC
Group II – Property rented and occupied by the Target Group in the PRC

VALUATION METHODOLOGY

We have valued the property nos.3, 5, 7 and 8 of Group I on market basis on the vacant possession and the direct comparison method is adopted where comparison based on prices realised on actual sales and/or asking price of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values.

In valuing the property nos.1, 2, 4, 6 and 9 of Group I, we have adopted a combination of the open market and depreciated replacement cost approaches in assessing the land portions of the properties and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the value of the properties as a whole. In the valuation of the land portions, reference has been made to the comparable asking prices and/or sales transactions as available in the subject localities as well as the relevant benchmark land prices.

As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnished the most reliable indication of value for the property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

We have also attributed no commercial value to the properties in Group II which is rented by the Target Group due to the prohibition against assignment and subletting or otherwise to the lack of substantial profit rents.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests.

No allowance has been made in our report for any outstanding or additional land premium, charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Other special assumptions of the property interests, if any, have been stated out in the footnotes of the valuation certificates attached herewith.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the property interests and have made relevant enquiries. We have not examined the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, AllBright Law Offices, concerning the validity of the Target Group's title to the property interests located in the PRC.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

We have not carried out any soil investigations to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. We do not make any allowance for contamination or pollution of the land, if any, which may have been caused by past usage.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation report is limited to the client to whom this report is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This report is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are herewith attached.

Yours faithfully,
For and on behalf of
Ascent Partners Transaction Service Ltd.
Ian K. F. Ng
MBA BSc (EstMan) BSc MHKIS MRICS RPS(GP)
Associate Director

Mr. Ian K. F. Ng is a Registered Professional Surveyor with over 7 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors as well as a chartered surveyor of The Royal Institution of Chartered Surveyors.

SUMMARY OF VALUES

Property		Market value in existing state as at 30 November 2010 *RMB*
Group I –Property held and occupied by the Target Group in the PRC		
1	Land and Buildings located at No.7270 Qing Song Road, Qingpu District, Shanghai City, the PRC	No Commercial Value
2	Land and Buildings located at 38/1 Qiu No. 4 Jie Fang, Shu Yuan Town, Pudong New District, Shanghai City, the PRC	60,300,000
3	Rooms 303, 304, 403 and 404, No 6 Shuyuan Yi Hao, Pudong New District, Shanghai City, the PRC	3,670,000
4	Land and Buildings located at West Dashushan, Jinggang Town, West Changjiang Road, Shushan District, Hefei City, Anhui Province, the PRC	33,720,000
5	Nos.1-11B & 11C, Office Building, CBD Central Plaza, No. 369 Changjiang Zhong Lu, Luyang District, Hefei City, Anhui Province, the PRC	7,860,000
6	Land and Buildings located at West of Longquan Guanzhuang Village, Xiaoli Town, Changqing District, Jinan City, Shandong Province, the PRC	No Commercial Value
7	Rooms 301 and 302, Level 3, Unit 1 Block 2, Zone A, Residential Area, Kaiyuan Shanzhuang, Lixia District, Jinan City, Shandong Province, the PRC	1,800,000
8	No. 341, Changjiang Binjiang Road, Yuzhong District, Chongqing City, the PRC	No Commercial Value
9	Land and Buildings located at No.1 Shuang Mei Da Dao, Long Hu Town, Xinzheng City, Zhengzhou City, He'nan Province, the PRC	128,000,000
	Sub-total:	235,350,000

Property		Market value in existing state as at 30 November 2010 *RMB*
Group II – Property rented and occupied by the Target Group in the PRC		
10	Land located at Fengjing Village, Qingpu District, Shanghai City, the PRC	No Commercial Value
11	Rooms 04, 05, 06 and 07, Level 13, Shanghai Charity Building, North Caoxi Road, Xu Hui District, Shanghai City, the PRC	No Commercial Value
12	South Block, Silver Plaza (Yanshan) Building Office Tower, No. 18 Heping Road, Lixia District, Jinan City, Shangdong Province, the PRC	No Commercial Value
13	Land located at Xiaoqiao Village and at Boshuliu Village, Longhu Town, Xinzheng City, Zhengzhou City, Henan Province, the PRC	No Commercial Value
14	An industrial unit located at Xinqiao Village, Tanjiagang Town, Shaping Bei District, Chongqing City, the PRC	No Commercial Value
	Sub-total:	No Commercial Value
	Grand Total:	235,350,000

VALUATION CERTIFICATE

Group I –Property held and occupied by the Target Group in the PRC

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
1	Land and Buildings located at No.7270 Qing Song Road, Qingpu District, Shanghai City, the PRC	The property comprises four parcels of land with a site area of approximately 402,034.3 square metres upon which 57 buildings with a total gross floor area of approximately 20,981.69 square metres and a Humanity Museum with a gross floor area of approximately 3,000 square metres were erected and completed in various stages between 1995 and 2010. The land use rights of the property were allocated for municipal facility projects and cemetery uses.	The property was occupied by the Target Group for cemetery use as at the Valuation Date.	No Commercial Value

Notes:

1. Pursuant to four sets of Shanghai Certificates of Real Estate Ownership- Hu Fang Di Qing Zi (2007) Di No.010201, Hu Fang Di Qing Zi (2005) Di No.013833, Hu Fang Di Qing Zi (2007) Di No.009831 and Hu Fang Di Qing Zi (2007) Di No.009834 issued by Shanghai Housing and Land Resources Administration Bureau, the land use rights of four parcels of land with a total site area of approximately 402,034.3 square metres and building ownership rights of 57 buildings with a total gross floor area of approximately 20,981.69 square metres were allocated to Shanghai Fu Shou Yuan Industry Development Co., Ltd. for municipal facility projects and cemetery uses.

2. As advised by the Company, a Humanity Museum with a gross floor area of approximately 3,000 square metres was completed in about 2010. The relevant title certificate of this building has not been obtained. For reference purpose, we are of the opinion that the depreciated replacement of this building in its existing states, as at valuation date and as at 30 September 2010, was RMB12,000,000 and was RMB12,000,000, respectively.

3. We have attributed no commercial value to the property due to the allocated nature of the land and hence, the property is not transferable. For reference purpose, we are of the opinion that the depreciated replacement cost of the buildings of the property in their existing states, as at the Valuation Date, is RMB60,480,000.

4. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the depreciated replacement cost of the buildings, assuming that the relevant building ownership certificates have been obtained, as at 30 September 2010, was RMB60,480,000.

5. The major certificates and permits of the property are summarized as follows:

   (i) Shanghai Certificate of Real Estate Ownership — Yes

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shanghai Fu Shou Yuan Industry Development Co., Ltd. owns the land use rights and building ownership rights of the property.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
2	Land and Buildings located at 38/1 Qiu No. 4 Jie Fang, Shu Yuan Town, Pudong New District, Shanghai City, the PRC	The property comprises a parcel of land with a site area of approximately 100,523.1 square metres upon which various buildings with a total gross floor area of approximately 4,333.8 square metres were erected and completed in various stages between 2004 and 2009. The land use rights of the property were granted for a term expiring on 30 December 2056 for cemetery facilities use.	The property was occupied by the Target Group for cemetery use as at the Valuation Date.	RMB60,300,000 (Renminbi Sixty Million Three Hundred Thousand Only)

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Nan Zi (2008) Di No.012279 issued by Shanghai Housing and Land Resources Administration Bureau dated 30 May 2008, a parcel of land with an area of 100,523.1 square metres was granted to Shanghai Nanyuan Industry Development Co., Ltd. for a term expiring on 30 December 2056 for cemetery facilities use.

2. As advised by the Company, various buildings with a total gross floor area of approximately 4,333.8 square metres were completed in between 2004 and 2009. We have attributed no commercial value to these buildings due the absence of relevant title certificates. For reference purpose, we are of the opinion that the depreciated replacement cost of these buildings in their existing use as at the Valuation Date is RMB12,200,000.

3. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property and the depreciated replacement cost of the buildings, assuming that the relevant building ownership certificates have been obtained, as at 30 September 2010, was RMB60,300,000 and RMB12,200,000 respectively.

4. Shanghai Nanyuan Industry Development Co., Ltd. is 40% interest-owned by the Target Group.

5. The major certificates and permits of the property are summarized as follows:

   (i) Shanghai Certificate of Real Estate Ownership Yes

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shanghai Nanyang Industry Development Co., Ltd. owns land use rights of the property.

   (ii) The land use rights were subject to a mortgage in favor of Huaxia Bank – Shanghai Branch.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
3	Rooms 303, 304, 403 and 404, No 6 Shuyuan Yi Hao, Pudong New District, Shanghai City, the PRC	The property comprises four residential units on Levels 3 and 4 of a 12-storey building completed in about 2009. The total gross floor area of the property is approximately 377.9 square metres. The land use right of the property were granted for a term of 70 years expiring on 19 July 2077 for residential use.	The property was occupied by the Target Group for residential use as at the Valuation Date.	RMB3,670,000 (Renminbi Three Million Six Hundred Seventy Thousand Only)

Notes:

1. Pursuant to four sets of Shanghai Certificates of Real Estate Ownership – Hu Fang Di Pu Zi (2010) Di Nos.218001, 218098, 218076 and 222511 issued by Shanghai Housing Security and Administration Bureau and Shanghai Planning, Land and Resources Administration Bureau, the land use rights and the building ownership rights of four residential units with a total gross floor area of approximately 377.9 square metres were granted to Shanghai Nanyuan Industry Development Co., Ltd. for a term of 70 years expiring on 19 July 2077 for residential use.

2. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property, as at 30 September 2010, was RMB3,670,000.

3. Shanghai Nanyuan Industry Development Co., Ltd. is 40% interest-owned by the Target Group.

4. The major certificates and permits of the property are summarized as follows:

   (i) Shanghai Certificate of Real Estate Ownership — Yes

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shanghai Nanyuan Industry Development Co., Ltd. owns the land use rights and building ownership rights of the property.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
4	Land and Buildings located at West Dashushan, Jinggang Town, West Changjiang Road, Shushan District, Hefei City, Anhui Province, the PRC	The property comprises a parcel of land with a site area of approximately 87,702 square metres upon which various buildings with a total gross floor area of approximately 1,337.76 square metres were erected and completed in about 2005 The land use rights of the property were granted for a term expiring in December 2050 for cemetery use.	The property was occupied by the Target Group for cemetery use as at the Valuation Date.	RMB33,720,000 (Renminbi Thirty Three Million Seven Hundred Twenty Thousand Only)

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – He Guo Yong (2002) Zi Di No.0226 issued by Hefei City Land Resources Bureau dated 15 April 2002, the land use rights of a parcel of land with a site area of 87,702 square metres were granted to Hefei Dashushan Culture Cemetery Co., Ltd. for a term expiring in December 2050 for cemetery use.

2. Pursuant to six sets of Certificates of Real Estate Ownership- Fang Di Quan He Chan Di Nos.080966, 080968-72 dated 30 September 2005 issued by Hefei City Office of the Commissioner of Real Estate Rights (合肥市房地產權監理處), the building ownership rights of 3 office buildings, a public facility buildings, a spray room and a toilet with a total gross floor area of approximately 1,337.76 square metres are owned by Hefei Dashushan Culture Cemetery Co., Ltd..

3. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property, as at 30 September 2010, was RMB33,720,000.

4. Hefei Dashushan Culture Cemetery Co., Ltd. is 60% interest-owned by the Target Group.

5. The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Grant Contract	Yes
(ii)	Certificate of Real Estate Ownership	Yes

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shanghai Fu Shou Yuan Industry Development Co., Ltd. owns the land use rights and building ownership rights of the property.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
5	Nos.1-11B & 11C, Office Building, CBD Central Plaza, No. 369 Changjiang Zhong Lu, Luyang District, Hefei City, Anhui Province, the PRC	The property comprises two office units on level 11 and two carparking spaces of a 26-storey office building completed in about 2006. The total gross floor area of the office units is 748.06 square metres. The land use rights of the property were granted for office use.	The property was occupied by the Target Group for office use as at the Valuation Date.	RMB7,860,000 (Renminbi Seven Million Eight Hundred Sixty Thousand Only)

Notes:

1. Pursuant to two sets of Certificates of Real Estate Ownership – Fang Di Quan He Chan Zi Di Nos.101173 and 101174 issued by Hefei City Office of the Commissioner of Real Estate Rights (合肥市房地產權監理處) dated 22 June 2007, the land use rights and the building ownership rights of the property with a gross floor area of 394.06 square metres and 354 square metres was granted to Hefei Dashushan Culture Cemetery Co., Ltd. for office use. As stipulated on the Certificates, the property includes two carparking spaces on basement floors.

2. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property, as at 30 September 2010, was RMB7,860,000.

3. Hefei Dashushan Culture Cemetery Co., Ltd. is 60% interest-owned by the Target Group.

4. The major certificates and permits of the property are summarized as follows:

   (i) Certificate of Real Estate Ownership Yes

5. We have been provided with a legal opinion by the Company's PRC legal advisers, that Hefei Dashushan Culture Cemetery Co., Ltd. owns the land use rights and building ownership rights of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
6	Land and Buildings located at West of Longquan Guanzhuang Village, Xiaoli Town, Changqing District, Jinan City, Shandong Province, the PRC	The property comprises two parcels of land with a total site area of approximately 929,334 square metres upon which various buildings and structures with a total gross floor area of approximately 959 square metres were erected and completed in about 2008.	The property was occupied by the Target Group for cemetery use as at the Valuation Date.	No Commercial Value

Notes:

1. Pursuant to a State-owned Construction Land Grant Contract – Jinan-01-2010-0185 entered into between Jinan City Land and Resources Bureau and Shandong Fu Shou Yuan Development Co., Ltd dated 8 November 2010, a parcel of land with a site area of approximately 522,857 square metres were agreed to be sold to Shandong Fu Shou Yuan Development Co., Ltd. for cemetery use at a land premium of RMB70,585,700.

2. Pursuant to Land and Affiliated Buildings Exchange and Compensation Contract (土地及地上附載物置換補償合同) Ji Fu He Zi (2006) Di No. 16 entered into between Villager Committee of Longquan Guanzhuang Village, Xiaoli Town (孝里鎮龍泉官莊村村民委員會) and Shandong Fu Shou Yuan Development Co., Ltd., in October 2006 three parcels of land with affiliated buildings and structures with a total site area of approximately 1,395 mu (929,334 square metres) were agreed to transfer to Shandong Fu Shou Yuan Development Co., Ltd.

3. We have attributed no commercial value to the land element of the property due to the absence of state-owned land use rights certificate. For reference purpose, we are of the opinion that the market value of the land element of the parcel of land as mentioned in Note 1 above having a site area of approximately 522,857 square metres as at the valuation is RMB83,700,000 assuming that all land premium, taxes and expenses have been fully settled and the land use rights of the property is freely disposed of in market.

4. As advised by the Company, various buildings with total gross floor area of approximately 959 square metres were completed in about 2008. We have attributed no commercial value to these buildings due the absence of the relevant title certificate. For reference purpose, we are of the opinion that the depreciated replacement cost of these buildings, assuming the relevant building ownership certificate have been obtained, as at the Valuation Date is RMB2,330,000.

5. Shandong Fu Shou Yuan Development Co., Ltd. is 50% interest-owned by the Target Group.

6. The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Grant Contract	Yes
(ii)	State-owned Land Use Rights Certificate	No

7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shandong Fu Shou Yuan Development Co., Ltd. would legally own the land use rights of the property if the state-owned land rights certificate is acquired.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
7	Rooms 301 and 302, Level 3, Unit 1 Block 2, Zone A, Residential Area, Kaiyuan Shanzhuang, Lixia District, Jinan City, Shandong Province, the PRC	The property comprises two residential units on level 3 of a 6-storey residential building completed in about 1995. The total gross floor area the property is 213.07 square metres The land use rights of the property are held for residential use.	The property was occupied by the Target Group for residential use as at the Valuation Date.	RMB1,800,000 (Renminbi One Million Eight Hundred Thousand Only)

Notes:

1. Pursuant to a Building Ownership Certificate – Ji Fang Quan Zheng Li Zi Di No. 075690 dated 13 September 2001 issued by Jinan City Real Estate Management Bureau (濟南市房產管理局), the property with a total gross floor area of approximately 213.07 square metres was granted to Shandong Fu Shou Yuan Devlopment Co., Ltd. for residential use.

2. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property as at 30 September 2010 was RMB1,800,000.

3. Shandong Fu Shou Yuan Development Co., Ltd. is 50% interest-owned by the Target Group.

4. The major certificates and permits of the property are summarized as follows:

   (i) Building Ownership Certificate Yes

5. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shandong Fu Shou Yuan Development Co., Ltd. owns the land use rights and building ownership rights of the property.

   (ii) The property is subject to a mortgage in favor of Jinan City Commerce Bank – Wen Dong Branch

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
8	No. 341, Changjiang Binjiang Road, Yuzhong District, Chongqing City, the PRC	The property comprises a whole block of a 3-storey commercial building completed in about 2001. The total gross floor area the property is approximately 3,556 square metres.	The property was occupied by the Target Group for commercial use as at the Valuation Date.	No Commercial Value

Notes:

1. Pursuant to Chongqing Municipal State-owned Land Use Rights Lease Contract – Yu Di Zu (Zhong Qu) He Zi (1999) No. 3 entered into between Land Resources Bureau of Yuzhong District of Chongqing Municipality and Chongqing Anle Services CO., Ltd. dated 18 May 1999, the land use rights of a parcel of land with a site area of 1,156.26 square metres were leased to Chongqing Anle Services CO., Ltd. for a term of 15 years commencing on 31 May 1999 and expiring on 30 May 2014 for commercial use at RMB32,600 per annum.

2. Pursuant to a Building Ownership Certificate – Fang Quan Zheng 101 Zi Di No.087314 issued by Chongqing Municipal Land Resources and Housing Bureau dated 27 February 2002, the building ownership rights of the property with a total gross floor area of approximately 3,556 square metres is owned by Chongqing Anle Services Co., Ltd..

3. We have attributed no commercial value to the property as the relevant land use rights certificate of the property has not yet been obtained. For reference purpose, we are of the opinion that the market value of the property, as at the Valuation Date, is RMB20,300,000 assuming that all land premium, taxes and expenses have been fully settled, the relevant land use rights certificate for a term of 40 years commencing on the date of the Building Ownership Certificate as mentioned in Note 2 above has been obtained and the property is freely disposed of in market.

4. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property, as at 30 September 2010, was RMB20,300,000 assuming that the relevant land use rights certificated has been obtained and the property is freely disposed of in market.

5. Chongqing Anle Services Co., Ltd. is 100% interest-owned by the Target Group.

6. The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Certificate	No
(ii)	Building Ownership Certificate	Yes

7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Chongqing Anle Services Co., Ltd. owns the building ownership rights of the property.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

	Property	Description and tenure	Particular of Occupancy	Market Value in existing state as at 30 November 2010
9	Land and Buildings located at No.1 Shuang Mei Da Dao, Long Hu Town, Xinzheng City, Zhengzhou City, Henan Province, the PRC	The property comprises seven parcels of land with a total site area of approximately 302,191.18 square metres and various buildings completed in between 2007 and 2010. As advised by the Company, the total gross floor area of the buildings is approximately 2,713.82 square metres. Breakdowns of the buildings are as follows:	The property was occupied by the Target Group for cemetery use as at the Valuation Date.	RMB128,000,000 (Renminbi One Hundred Twenty Eight Million Only)

Use	Gross Floor Area (Approx.) (sq.m.)
Wells Room(機井房)	15.12
Toilet (廁所)	19.8
DistributionRoom (配電房)	8.5
Office Building(辦公樓)	2,370.4
Dong YuanOffice Building (東苑辦公樓)	300
Total	2,713.82

The land use rights of the property were granted for a term expiring in June 2055 for mixed uses.

Notes:

1. Pursuant to seven sets of State-Owned Use Rights Certificate- Xin Tu Guo Yong (2005) Di Nos. 131-7 issued by Zhengzhou City Land and Resources Bureau dated 1 July 2005, the land use rights of seven parcels of land with a total site area of approximately 302,191.18 square metres were granted to Henan Zhongzhou Min Ren Yuan Development and Management Company (河南中州名人園開發管理有限公司) for a term expiring in June 2055 for mixed uses.

2. As advised by the Company, various buildings with a total gross floor area of approximately 2,713.82 square metres were completed in between 2007 and 2010. We have attributed no commercial values for these buildings as the relevant Building Ownership Certificates have not been granted. For reference purpose, we are of the opinion that the depreciated replacement cost (excluding the land element) of these buildings in its exiting use as at the Valuation Date, assuming the relevant building ownership certificates have been obtained and these buildings are freely disposed of in market, is RMB5,640,000.

3. The Company instructed us to value the property as at 30 September 2010. For reference purpose, we are of the opinion that the market value of the property and the depreciated replacement cost of the buildings, assuming that the relevant land use rights certificated has been obtained, as at 30 September 2010, was RMB128,000,000 and RMB5,640,000 respectively.

4. Pursuant to a « Henan Province Home Office's Response to About Consent to Rename of Henan Zhongzhou Min Ren Yuan Development and Management Company to Henan Fu Shou Yuan » , Henan Zhongzhou Min Ren Yuan Development and Management Company was allowed to change to the name of 'Henan Fu Shou Yuan Industry Co., Ltd.' .

5. Henan Fu Shou Yuan Industry Co., Ltd. is 55% interest-owned by the Target Group.

6. The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Certificate	Yes
(ii)	Building Ownership Certificate	No

7. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Henan Fu Shou Yuan Industry Co., Ltd. owns the land use rights of the property.

   (ii) There is no evidence that the property is subject to encumbrances.

VALUATION CERTIFICATE

Group II – Property rented and occupied by the Target Group in the PRC

	Property	Description and tenure	Market Value in existing state as at 30 November 2010
10	Land located at Fengjing Village, Qingpu District, Shanghai City, the PRC	The property comprises two parcels of land with a total site area of approximately 197,188 square metres. The property was occupied by the Target Group for car-parking space and greening uses as at the Valuation Date. The property is held under various tenancy agreements for various terms at the latest expiry on 31 March 2013.	No Commercial Value

Notes:

1. Pursuant to various Land Tenancy Contracts entered between Fengjing Village, Qing Pu Town, Qingpu District (青浦區青浦鎮楓涇村) and Shanghai Fu Shou Yuan Industry Development Co., Ltd., various parcels of lands with a total site area of 295.78 mu (or 197,187 square metres) were leased for greenery and carparking purposes to Shanghai Fu Shou Yuan Industry Development Co., Ltd. with details as follows:

No	Date of Agreement	Term	Approx. Site Area (mu)
1	February 2002; 25 September 2003; January 2008; and 18 December 2007	1 January 2002 to 31 December 2011	180.21
2	1 April 2003	1 April 2003 to 31 March 2013	115.57
		Total:	295.78

2. We have been provided with legal opinion by the Company's legal adviser that the tenancy agreement is valid.

VALUATION CERTIFICATE

	Property	Description and tenure	Market Value in existing state as at 30 November 2010
11	Rooms 04, 05, 06 and 07, Level 13, Shanghai Charity Building, North Caoxi Road, Xu Hui District, Shanghai City, the PRC	The property comprises four office units on level 13 of a 27-storey office buildings completed in about 2007. The total gross floor area of the property is approximately 717.21 square metres. The property is occupied by the Target Group for office purpose. The property is held under a tenancy agreement for a term commencing on 18 May 2010 and expiring on 17 May 2013 at a monthly rental of RMB100,350 exclusive of management fee.	No Commercial Value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 April 2010 entered into between Catholic Diocese of Shanghai (天主教上海教區), a third party, and Shanghai Fu Shou Yuan Industry Development Co., Ltd., the property with a total gross floor area of approximately 717.21 square metres was leased to Shanghai Fu Shou Yuan Industry Development Co., Ltd for a term of three years commencing on 18 May 2010 and expiring on 17 May 2013 at a monthly rental of RMB100,350 exclusive of management fee.

2. We have been provided with legal opinion by the Company's legal adviser that the tenancy agreement is valid.

VALUATION CERTIFICATE

	Property	Description and tenure	Market Value in existing state as at 30 November 2010
12	South Block, Silver Plaza (Yanshan) Building Office Tower, No. 18 Heping Road, Lixia District, Jinan City, Shangdong Province, the PRC	The property comprises an office unit of a 3-storey office building completed in about 2004. The total gross floor area of the property is approximately 233.77 square metres. The property is occupied by the Target Group for office purpose. The property is held under a tenancy agreement for a term of 1 year commencing on 1 March 2010 and expiring on 28 February 2011 at rental of RMB25, 579.75 per 3 months exclusive of water and electricity bills.	No Commercial Value

Notes:

1. Pursuant to Housing Tenancy Agreement – TZ-LY-CZ-1007-0022 dated July 2007 entered into between Shandong World Trade Centre (山東世界貿易中心), a third party, and Shandong Fu Shou Yuan Development Co., Ltd., 50% interest-owned by the Target Group. the property with a total gross floor area of 233.77 square metres were leased to Shandong Fu Shou Yuan Development Co., Ltd. for a term of 1 year commencing on 1 March 2010 and expiring on 28 February 2011 at RMB25, 579.75 per 3 months exclusive of water and electricity bills.

2. We have been provided with legal opinion by the Company's legal adviser that the tenancy agreement is valid.

VALUATION CERTIFICATE

	Property	Description and Tenancy Particulars	Market Value in existing state as at 30 November 2010
13	Land located at Xiaoqiao Village and at Boshuliu Village Longhu Town, Xinzheng City, Zhengzhou City, Henan Province, the PRC	The property comprises seven parcels of land with a total site area of approximately 99.5285 mu (or 66,353 square metres) The property is occupied by the Target Group for car-parking space and greening use purposes. The property is held under various tenancy agreements for various terms at the latest expiry on 15 March 2036.	No Commercial Value

Notes:

1. Pursuant to two Land Tenancy Contracts entered into between Xiaoqiao Village of Longhu Town (龍湖鎮小喬村) and Henan Zhongzhou Min Ren Yuan Development and Management Company (河南中州名人園開發管理有限公司), 55% interest-owned by the Target Group, three parcels of lands with a total site area of 34.0285 mu (or 22,686 square metres) were leased for greenery and carparking purposes to Henan Zhongzhou Min Ren Yuan Development and Management Company with details as follows:

No	Agreement Date of	Term	Site Area Approx. (mu)
1	14 May 2006	14 May 2006 to 13 May 2036	12.375
2	14 May 2006	14 May 2006 to 13 May 2036	16.9
3	5 February 2007	5 February 2007 to 4 February 2022	4.7535
		Total:	34.0285

2. Pursuant to various Land Tenancy Contracts entered into between Boshuliu Village of Longhu Town (龍湖鎮柏樹劉村) and Zhengzhou Longhu Seedlings and Flowers Ltd. (鄭州龍湖苗木花卉有限公司), three parcels of lands with a total site area of 65.5 mu (or 43,667 square metres) were leased for greenery and carparking purposes to Zhengzhou Longhu Seedlings and Flowers Ltd. with details as follows:

No	Agreement Date of	Term	Site Area Approx. (mu)
1	16 March 2006	16 March 2006 to 15 March 2036	63.5
2	16 March 2006	16 March 2006 to 15 March 2036	1
3	16 March 2006	16 March 2006 to 15 March 2036	1
		Total:	65.5

3. We have been provided with legal opinion by the Company's legal adviser that the tenancy agreements are only valid for 20 years under the PRC Contract Law.

VALUATION CERTIFICATE

	Property	Description and Tenancy Particulars	Market Value in existing state as at 30 November 2010
14	An industrial unit located at Xinqiao Village, Tanjiagang Town, Shaping Bei District, Chongqing City, the PRC	The property comprises an industrial unit completed in about 2002. The total gross floor area the property is 4,179 square metres. The property is occupied by the Target Group for industrial purpose. The property is held under a tenancy agreement for a term of 15 years commencing on 15 January 2003 and expiring on 14 January 2018.	No Commercial Value

Notes:

1. Pursuant to a Building Tenancy Agreement entered into between Chongqing Xinqiao Industry Company (重慶新橋實業總公司) and Chongqing Anle Funeral Service Co. Ltd. 100% interest-owned by the Target Group, dated 14 November 2002, an industrial unit with a gross floor of approximately 4,179 square metres was leased to Chongqing Anle Funeral Service Co. Ltd. for a term of 15 years commencing on 15 January 2003 and expiring on 14 January 2018 for industrial purpose at annual rental of RMB205,000 at the first year which increases 5% a year exclusive of water and electricity bills.

2. We have been provided with legal opinion by the Company's legal adviser that the tenancy agreement is valid.

PROPERTY RECONCILIATION STATEMENT

Property *No.*	Company	Valuation report as at 30 November 2010 *(in RMB)* *(Note 1)*	Carrying Value as at 30 September 2010 *(in RMB)* *(Note 2)*	Revaluation Surplus/(deficits) *(RMB)*
1	Shanghai Fu Shou Yuan Industry Development Co., Ltd.	72,480,000 *(Note 3)*	73,569,000	(1,089,000) *(Note 8)*
2 & 3	Shanghai Nanyuan Industry Development Co., Ltd.	76,170,000 *(Note 4)*	78,194,000	(2,024,000) *(Note 8)*
4 & 5	Hefei Dashushan Culture Cemetery Co., Ltd.	41,580,000	10,586,000	30,994,000
6 & 7	Shandong Fu Shou Yuan Development Co., Ltd.	87,830,000 *(Note 5)*	90,849,000	(3,019,000) *(Note 8)*
8	Chongqing Anle Services Co., Ltd.	20,300,000 *(Note 6)*	1,743,000	18,557,000
9	Henan Fu Shou Yuan Industry Co., Ltd.	133,640,000 *(Note 7)*	126,530,000	7,110,000

Notes:

1. Extracted from valuation report in Appendix IV

2. Extracted from management account of the Company for the period ended 30 September 2010, which agree with the figures included in the accountants' reports set out in Appendix II to this circular.

3. We have attributed no commercial values to properties. For reference purpose, we are of the opinion that the valuation of the properties is RMB72,480,000 (or RMB12,000,000 + RMB60,480,000), assuming the relevant certificates have been granted and the property is freely disposed of in market.

4. We have attributed no commercial values to buildings of Property No. 2 due to absence of building ownership certificate. For reference purpose, we are of the opinion that depreciated replacement cost of the building was RMB12,200,000, assuming the relevant certificates have been granted and the property is freely disposed of in market.

5. We have attributed no commercial values to lands and buildings due to absence of relevant certificates of Property No. 6. For reference purpose, we are of the opinion that the market value of land element and depreciated replacement cost of buildings is RMB86,030,000 (or RMB83,700,000 + RMB2,330,000), assuming the relevant certificates have been granted and the property is freely disposed of in market.

6. We have attributed no commercial value to the property due to absence of proper land use rights certificate. For reference purpose, we are of the opinion that the market value of the property is RMB20,300,000, assuming the relevant certificates have been granted and the property is freely disposed of in market.

7. We have attributed no commercial value to the buildings of the property due to absence of building ownership certificate. For reference purpose, we are of the opinion that the depreciated replacement cost of the property is RMB5,640,000 assuming the relevant certificates have been granted and the property is freely disposed of in market.

8. Revaluation deficits arise mainly because the valuation does not take into account the value of the auxiliary facilities and gardening works built on the properties while such costs were accounted for in the accounts of the Acquired Assets.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent valuer, Ascent Partners, in respect of the valuation of the Acquired Assets.

ASCENT PARTNERS
Together We Flourish

Suite 2102, 21/F, Hong Kong Trade Centre,
161-167 Des Voeux Road Central,
Hong Kong
Tel: 3679-3890
Fax: 3586-0683

Valuation of the Equity Interest
In
Shanghai Fu Shou Yuan Industry Development Co., Ltd.,
Shanghai Nanyuan Industry Development Co., Ltd.,
Shanghai Fu Shou Yuan Consulting & Management Co., Ltd.
Henan Fu Shou Yuan Industry Co., Ltd.,
Chongqing Anle Services Co., Ltd.,
Chongqing Anle Funeral Service Co., Ltd.,
Shandong Fu Shou Yuan Development Co., Ltd.,
Hefei Dashushan Culture Cemetery Co., Ltd.,
Hefei Renben Funeral Service Co., Ltd &
Hefei Huazhijian Co., Ltd.

For

China HealthCare Holdings Limited

DATE: 17 FEBRUARY 2011

REF: APG-PV-100825-223WY

China HealthCare Holdings Limited
Unit C, 19/F Entertainment Building,
30 Queen's Road, Central,
Hong Kong.
Date: 17 February 2011

Attn: The Board of Directors

Dear Sir/Madam,

RE: Valuation of Equity Interest in Shanghai Fu Shou Yuan Industry Development Co., Ltd., Shanghai Nanyuan Industry Development Co., Ltd., Shanghai Fu Shou Yuan Consulting & Management Co., Ltd., Henan Fu Shou Yuan Industry Co., Ltd., Chongqing Anle Services Co., Ltd., Chongqing Anle Funeral Service Co., Ltd., Shandong Fu Shou Yuan Development Co., Ltd., Hefei Dashushan Culture Cemetery Co., Ltd., Hefei Renben Funeral Service Co., Ltd. & Hefei Huazhijian Co., Ltd.

In accordance with the instruction of **China HealthCare Holdings Limited** (hereinafter referred as the "**Company**") we have undertaken a valuation to determine the fair values of equity interests of various companies to be acquired by the Company (hereinafter collectively referred as "Acquired Assets"), namely **Shanghai Fu Shou Yuan Industry Development Co., Ltd.** 上海福壽園實業發展有限公司 (hereinafter referred as "**Shanghai FSY**" or "上海福壽園"), **Shanghai Fu Shou Yuan Consulting & Management Co., Ltd.** 上海福壽園諮詢管理有限公司 (here in after referred as "**Shanghai FSY Consulting**" or "上海福壽園諮詢"), **Shanghai Nanyuan Industry Development Co., Ltd.** 上海南院實業發展有限公司 (hereinafter referred as "**Shanghai Nanyuan**" or "上海南院"), **Henan Fu Shou Yuan Industry Co., Ltd.** 河南福壽園實業有限公司 (hereinafter referred as "**Henan FSY**" or "河南福壽園"), **Chongqing Anle Services Co., Ltd.** 重慶安樂服務有限公司 (hereinafter referred as "**Chongqing Anle**" or "重慶安樂"), **Chongqing Anle Funeral Service Co., Ltd.** 重慶安樂殯儀服務有限公司 (hereinafter referred as "**Chongqing FS**" or "重慶殯儀"), **Shandong Fu Shou Yuan Development Co., Ltd.** 山東福壽園發展有限公司 (hereinafter referred as "**Shandong FSY**" or "山东福壽園"), **Hefei Dashushan Culture Cemetery Co., Ltd.** 合肥大蜀山文化陵園有限公司 (hereinafter referred as "**Hefei Dashushan**" or "合肥大蜀山"), **Hefei Renben Funeral Service Co. Ltd.** 合肥人本殯儀服務有限公司 (hereinafter referred as "**Hefei Renben**" or "合肥人本") and **Hefei Huazhijian Co., Ltd.** (hereinafter referred as "**Hefei Huazhijian**" or "合肥花之間") as at **30 September 2010** (hereinafter referred as the "**Valuation Date**").

This report outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinions and our conclusion of value.

Ascent Partners Transaction Service Limited (hereinafter referred as "**Ascent Partners**") is an independent firm providing full range of valuation and advisory services. This report has been prepared independently. Neither Ascent Partners nor any authors of this report hold any interest in the Company or its related parties. The fee for providing this report is based on Ascent Partners' normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in this report.

For and on behalf of
Ascent Partners Transaction Service Limited

William SW Yuen
Director
CFA, FRM

1. PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the fair values of the equity interests in Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and the valuation report will be disclosed to the public by the Company.

2. SCOPE OF WORK

In conducting this valuation exercise, we have

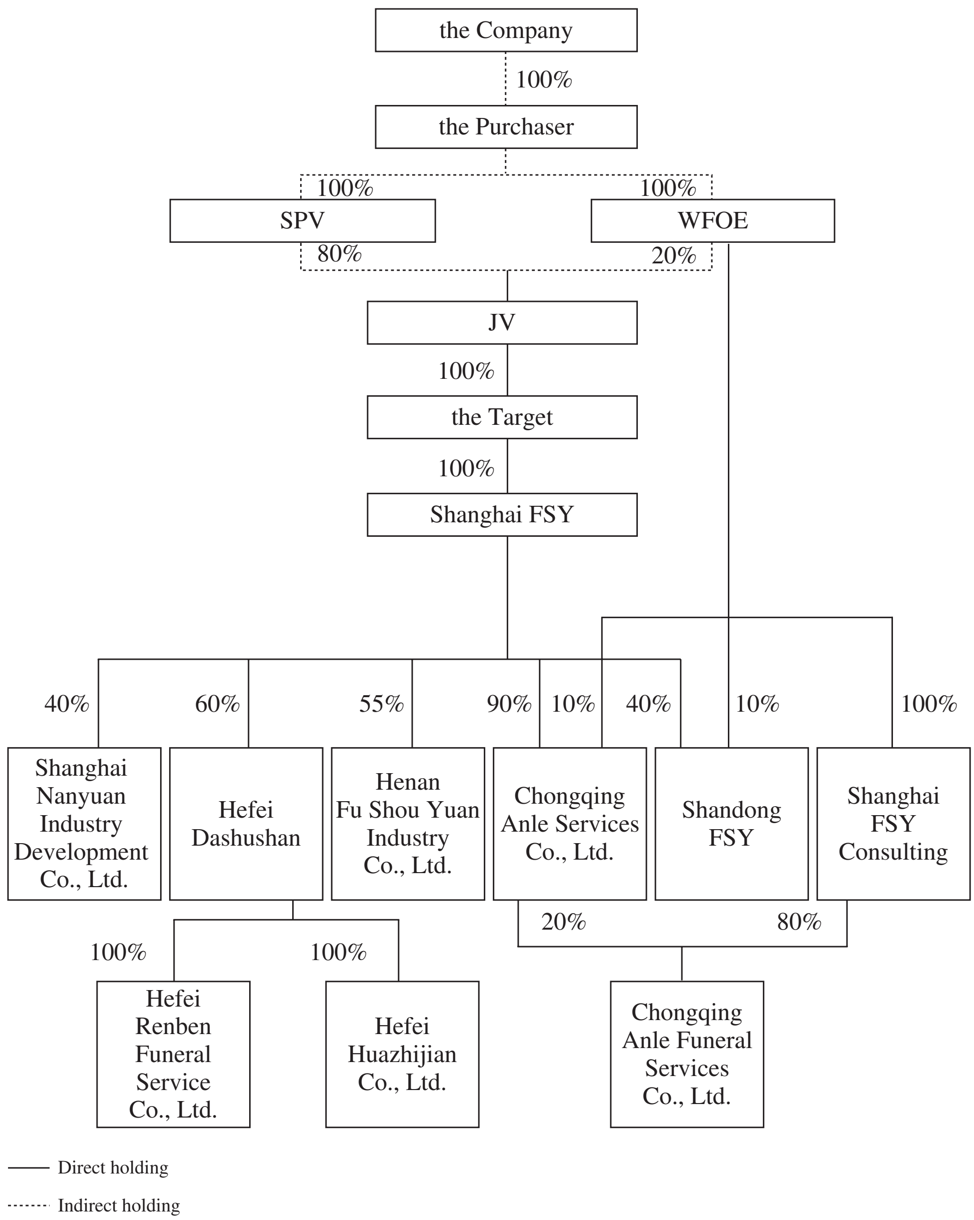
- Gathered all relevant information, including historical and forecast financial data;
- Interviewed the management of the Company to understand the history, business model, operations, customer base, business development plan and profit forecast, etc. of the business enterprises for valuation purpose;
- Co-ordinated with the Company to obtain the required information and documents for our valuation;
- Inspected the business ventures of cemetery business;
- Carried out a research in the sector concerned and collected market data from reliable sources;
- Investigated into the information, and considered the basis and assumptions of our conclusion of value;
- Analysed the financial information of companies in a similar industry; and
- Designed an appropriate valuation model to analyse the market transactions and derive the estimated values of the various companies.

3. BACKGROUND

The Company is a holding company incorporated in Bermuda and listed on main board of the Hong Kong Stock Exchange. Its principal subsidiaries are engaged in healthcare and consumer services in mainland China by leveraging its unique access to healthcare resources, communications infrastructure and consumer channels.

During the past financial year, the Company did not have sufficient cash on hand and has been in default to its obligations to repay two convertible bonds of outstanding principals. The Company is thus actively seeking for suitable investment or business opportunities for further expansion of its business and income sources, and for bringing in viable projects and/or external resources for solving the insolvency problem of the Company.

As such, the Company has reached an agreement to acquire the equity interests of various companies which are principally engaged in the Cemetery and Funeral Services industry. Upon completion of the acquisition, the shareholding structure will be as follows:



3.1 The Target Companies

The Target Companies are well established, including companies which develop and construct cemeteries in the PRC for sale of cemetery property and related merchandise, and companies which provide the funeral and consultancy services.

Shanghai Fu Shou Yuan Industry Development Co., Ltd. 上海福壽園實業發展有限公司 is located in the southern part of Qingpu district next to the Songjiang. It was founded in 1994, with an area of more than 800 Mu. Shanghai FSY built the first Human Memorial Park in China, which can be regarded as model for the reform of the modern funeral in China, where more than 500 celebrities were buried there, such as Wang Daohan (the former mayor of Shanghai and the former president of the Association for Relations Across the Taiwan Strait), Cheng Zhi (famous actor), Qiao Guanhua (famous diplomat), Deng Lijun (famous singer), Chen Wangdao (translator of the first Chinese version of Communist Manifesto and the first president of Fudan University) and his wife Ms Cai Muhui, and Xie Jin (famous Chinese film master), etc.

As the executive member of China Funeral Association, member of International Cemetery, Cremation and Funeral Association (ICCFA), member of Australasian Cemetery and Crematoria Association (ACCA), Shanghai FSY has been honored the "Model Unit of Shanghai", Shanghai First-Class Cemetery", "Garden Unit" and youth education base of Shanghai, and was the first one to pass ISO9001:2008 and ISO14001:2004 quality environment system certificate in cemetery industry in China. In 2004 Shanghai FSY was named by the Ministry of Civil Affairs as the Human Memorial Park and in 2006, it was approved by the Shanghai Red Tourism Coordination Group as the Red Tourism Base. In 2008, it was awarded the "Most Influential Charity Project" by the China Charity Award.

Shanghai Nanyuan Industry Development Co., Ltd. 上海南院實業發展有限公司 was officially opened in November of 2007 with an area of 525 Mu. It has the responsibilities of vacating more lands for Lingang Industrial District through the move, relocation and placement of more than 80 thousand local graves and serves the resident populations of Lingang New City as a comfortable back garden. With the aim of supporting the construction of the New City by releasing more lands, Shanghai Nanyuan has completed the transference of about 20 thousands graves by 2009 through the process from holding collective tree burial, building collective monuments, to establishing collective memorial walls for ancestors with the trinity services of collective burial, collective name and collective memorial.

Hefei Dashushan Culture Cemetery Co., Ltd. 合肥大蜀山文化陵園有限公司 is located in the picturesque scenic resort of Dashushan in Hefei. It was officially open in February 2002, with an area of about 130 Mu, and has grown to be cemetery industry leader of Hefei with elements of "environmental protection, green and humanities", etc. Hefei Dashushan was elected the "Sightseeing of Shushan Mountain" as one of the "Ten New View of Hefei" and was also officially announced as the "Patriotism Education Base of Hefei".

A large number of celebrities were buried in the cemetery, including Gao Jingting, the general of New Fourth Army, Yu Deshui, the anti-Japanese hero from Jiaodong area, Jiang Tianran, the founder of China's aviation school, Lu Yanzhou, the famous writer born in Anhui, Xiao Longshi, the famous painter and calligrapher, and Li Suzhen and Li Qing, the outstanding representatives of police officers in the new era, etc.

Shandong Fu Shou Yuan Development Co., Ltd. 山東福壽園發展有限公司 , is located in the Xiaoli Town of Changqing district in Jinan city, surrounded by Dafeng Mountain (the national resorts), Xiaotang Mountain (the key national cultural relics protection unit) and Qi Great Wall. It was officially opened in 2004, and has been the large comprehensive cemetery that combines tourism, memorial and human memorial as well as the largest cultural cemetery in Shandong province.

With large numbers of elite monuments, the cemetery has been granted the patriotism education base by publicity departments of Changqing District and Jinan city, was awarded the "Model Unit of Jinan for the year of 2008" by municipal Party committee and municipal government of Jinan city.

Henan Fu Shou Yuan Industry Co., Ltd. 河南福壽園實業有限公司, is located in the Longhu town of Xinzheng west to the National Highway 107, and is about 10 km away from Zhengzhou, covering a large area of 500 Mu. The cemetery was established in the March of 2008, and committed to building the water culture with the positioning of "ecology garden-style, small-scale and artistic".

Shanghai Fu Shou Yuan Consulting & Management Co., Ltd. 上海福壽園諮詢管理有限公司, which commenced its operations in September 2002, is engaged in providing of consultancy and management service for the development and construction of cemeteries in the PRC.

Chongqing Anle Services Co., Ltd. 重慶安樂服務有限公司 and **Chongqing Anle Funeral Service Co., Ltd.** 重慶安樂殯儀服務有限公司, established in April of 2002, are located in the central districts of Caiyuanba of Yunzhong District and Xinqiao of Shapingba District, equipped with memorial halls of different styles and grades. They are professional funeral service organizations led by the Bureau of Civil Affairs with legal registration and conduct their services as members of ACCA, ICCFA, NFDA and China Funeral Association as well as the vice president unit of Chongqing Funeral Association, providing comprehensive and personalized services with the obligation of safeguarding the dignity of the dead as well as the duties of soothing the hearts of their families.

Hefei Renben Funeral Service Co. Ltd. 合肥人本殯儀服務有限公司was co-established by Hefei Dashushan and Hefei Funeral Home in October of 2008.

Hefei Huazhijian Co., Ltd. 合肥花之間有限公司, which commenced its operation in May 2010, engages in flower arrangement business for funerals.

3.2 Cemetery and Funeral Service Industry in PRC

According to the National Bureau of Statistics China (NBSC), the national population of China in 2008 was about 1.33 billion. Due to urbanization, the population proportion in urban area has grown significantly in the past ten years from 34.78% in 1999 to 45.68% in 2008, representing an average annual growth rate of 2.76%. The national life expectancy increased from the age of 68.55 in 1990 to 71.40 in 2000, and such trend is expected to continue due to further improvement in living condition and health awareness. The proportion of population aged 60 or above has grown from 6.9% in 1999 to 8.3% in 2008, representing an average annual growth rate of 1.86%. While the national birth rate is decreasing, the death rate has grown from 6.46% in 1999 to 7.06% in 2008, representing an average annual growth rate of 0.89%. The above demographic trends, including aging population, are favourable for the cemetery and funeral service industry, and the demand for cemetery products and services is expected to grow continually in fast pace in the next decades.

The table below summarizes some of the 2008 demographic statistics for the entire China and the regions of particular interest with the reference to the national life expectancy in 2000, as well as the potential market size.

Region	**Total Population (year-end) (10,000 Persons)**	**Urban Population Proportion**	**Death Rate**	**Aged 65 and Over Proprtion**	**Life Expectancy in 2000**
National Total	**132802**	**45.68**	**7.06**	**8.25**	**71.40**
Beijing	1695	84.90	4.75	10.29	76.10
Shanghai	1888	88.60	6.17	13.04	78.14
Anhui	6135	40.50	6.60	10.74	71.85
Shandong	9417	47.60	6.16	9.75	73.92
Henan	9429	36.03	6.45	7.82	71.54
Chongqing	2839	49.99	6.30	11.96	71.73

During the recent financial crisis, China has also revealed its impressive economic growth. According to the World Economic Outlook, the average annual GDP growth rate of China is an impressive double-digit figure of 10.28% in the past ten years. In accordance with NBSC, while the per capita annual income increases from RMB6,296 in 2000 to RMB17,068 in 2008, representing an average annual growth rate of 11.72%, the average annual growth rates for the per capita annual disposable income of urban and rural households are 10.78% and 8.67%, respectively. The per capita annual consumption expenditure is also evidenced with an increase from RMB4,998 in 2000 to RMB11,243, representing an average annual growth rate of 9.43%.

In addition to the improvement of households on their ability to increase spending, it is also the traditional culture of Chinese to be more willing to spend good amount of money on cemetery products and funeral services to show their respect to the deceased. To certain extent, they may even spend their life-time savings to acquire good cemetery land as they think that the descendants of the deceased will be blessed for prosperity. Hence, affordability and willingness of consumer to pay higher price to get better quality product and services in the cemetery and funeral industry is expected to provide sustainable growth opportunities for the industrial players which can provide high quality services.

The cemetery and funeral industry is subject to the requirements and regulations of the Funeral and Interment Acts (殯葬管理條例) promulgated by the State Council of the PRC on July 21, 1997. Pursuant to the laws and regulations, the regulator wanted to encourage cremation, to reform the traditional methods of burial, to effectively control the cemetery land use, to impose measure against destruction of ecological environment to promote civilized practices and sustainable growth of the industry in view of scarcity of land resources and environmental protection. According to NBSC, the cremation rate has increased from 36.8% in 1997 to 48.4% in 2007. The cremation rate will be higher in some large cities such as Beijing and Shanghai.

The cemetery and funeral servicing industry is highly regulated, implying high barrier for new entrant. In addition, while new funeral servicing operation may be less difficult to develop, new cemetery development requires a significant capital investment which may take several years, usually 3 to 5 years, to become profitable. In addition, there is great tendency of spouses, or family members of multiple generations to be buried in the same cemetery area or use the funeral services managed by the same providers. Hence, well recognized cemetery and funeral servicing providers will attract more customers and may be more likely to be shielded against competition from new competitors. However, innovation in providing quality products and services is also an important factor to maintain or increase the market shares.

4. INTRODUCTION

This report has been prepared in accordance with instructions from the Company to determine the fair value of the equity interest in Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian as at the Valuation Date. This report outlines our latest findings and valuation conclusion.

5. BASIS OF VALUATION

Our valuation was carried out on a fair value basis. Fair value is defined as *"the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."*

6. BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Committee. The valuation procedure includes review of the financial and economic conditions of the subject business, an assessment of key assumptions, estimates, and representations made by the Company. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinions of value included in the valuation report are impartial, independent, and unbiased.

The following factors also form a considerable part of our basis of opinion:

- Assumptions on the market and on the subject business that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation of the subject business;
- Consideration and analysis on the micro- and macro-economic factors;
- Analytical review of the subject business.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

7. SOURCES OF INFORMATION

In conducting our valuation of the subject asset, we have considered, reviewed and relied upon the following key information provided by the instructing party and the public.

- Overview and operating statistics of Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian;
- Financial projections of Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian;
- Discussions with the management of the Company;
- Publications and private research reports regarding the cemetery and funeral servicing industry;
- Bloomberg Database and other reliable sources of market data.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this valuation. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Company.

We also conducted research using various sources including government statistical releases and other publications to verify the reasonableness and fairness of information provided and we believe that the information is reasonable and reliable.

Our opinion is based upon economic, market, financial and other conditions as they exist and can be evaluated on the date of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control or the control of any party involved in this valuation exercise.

8. VALUATION APPROACH AND METHODOLOGY

In carrying out this valuation exercise, we have considered the following approaches and methodologies:

Asset-Based Approach – The asset-based approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Unlike market and income approaches which either incorporate market sentiments or future earnings capacity of an asset as a function to determine its current value, cost approach considers the fundamental cost it takes to form the asset. In our opinion this method is inapplicable to the current analysis as the assets of Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian cannot be properly defined.

Market Approach – A general way of estimating a value indication of an asset, the market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect differences in terms, conditions, etc. Assets for which there is an established market may be appraised by this approach. This method is not preferred in this exercise because the available market data from listed companies engaged in the same business which were regarded as arm's length transactions for analysis and comparison do not lead us to sensible valuation analysis.

Income Approach – The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets. The value of the asset to be valued is developed through the application of the income approach technique known as discounted cash flow method to devolve the values of future income generated by the asset into a present market value.

In this valuation exercise, the value of asset to be valued is developed through the application of the income approach technique known as free cash flow method to devolve the values of future income generated by the asset into a present market value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its business operation.

9. VALIDATION OF ASSUMPTIONS AND NOTES TO VALUATION

The assumptions considered having significant sensitivity effects in this valuation have been evaluated and validated in arriving at our assessed values.

General Assumptions

We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Company.

Assumptions and Notes

In this exercise, income approach is employed to estimate the fair value of the equity interest in Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian. Their equity values have been developed through the application of the FCFE income approach, whereas the future projections of the respective FCFE values are discounted into a present market value using the cost of equity.

To derive the cost of equity, the market-cap-weighted-average (MCWA) unlevered beta is first derived from the comparable listed of companies based on the following formula:

1. $\beta_{\text{unlevered, comparable}} = \beta_{\text{levered, comparable}} / [1 + (1 - \textit{tax rate}_{\text{comparable}}) * (D/E)_{\text{comparable}}]$

The levered beta is then derived from the market-cap weighted average unlevered beta based on the following formula:

2. $\beta_{\text{levered}} = \text{MCWA-}\beta_{\text{unlevered, comparables}} * [1 + (1 - \textit{tax rate}) * (D/E)]$

With the levered beta, the cost of equity, i.e. the required return rate, is derived based on the Capital Asset Pricing Model (CAPM):

3. Cost of Equity = Risk Free Rate + [β * (Market Return – Risk Free Rate)]

   where

   - β is the sensitivity of return of equity to the market risk premium; and
   - the market risk premium is the difference between the expected rate of return on the market portfolio and the risk-free rate.

4. According to Bloomberg database, the risk free rate and expected market return for China are 3.330% and 14.286%, respectively.

5. The market risk premium is therefore 10.96%.

6. According to the 2008 Ibbotson® SBBI® Valuation Yearbook, an industry specific premium of 4.59% is to be applied so as to compensate for any risk as a result of the specific industry.

7. The value of unlevered β of the cemetery and funeral servicing industry, as derived from the β values of the following listed companies, is 0.8768.

0922.HK	China Boon Holdings Limited
8085.HK	ZMAY Holdings Limited
8296.HK	Sino-Life Group Limited
APSI.SP	Asia Pacific Strategic Investment Limited

8. The Cost of Equity is therefore 17.77%.

9. As confirmed by the management, no fair values are required to derive for the following companies:

   - Shanghai FSY Consulting – it is a holding company for Chongqing FS, with no significant revenues as compared to its subsidiary, as well as the other companies in the Acquired Assets. Its revenue and net loss for the first nine months of 2010 were around RMB2 Million and RMB0.7 Million, respectively, as compared to RMB11 Million and RMB4 Million that of Chongqing FS.

   - Hefei Huazhijian – Its revenues and earnings are not significant as compared to the other companies in the Acquired Assets. Its revenue and net loss for the first nine months of 2010 were around RMB0.1 Million and RMB0.07 Million.

10. As confirmed by the management, the following assumptions are applied on the income projections:

(i) Cemetery land allocation:

						Developed Cemetry Land				Cemetry Land To be Developed			
	Total Area (m^2)	Total Owned Area (m^2)	Total Rented Area (m^2)	Total Sellable Area (m^2)	Sellable Rate	Total Developed Area (m^2)	Area per Existing Unit (m^2)	#Unit Sold	#Unit Left	Total Un-Developed Area (m^2)	Area per New Unit (m^2)	#Unit to be developed (m^2)	Planned Annual Sale (Unit)
Shanghai FSY 上海福壽園	599,222	402,034	197,188	389,494	65%	100,732	3.1	30,607	1,872	288,762	1.9	151,980	3,500
Shanghai Nanyuan 上海南院	100,523	100,523	–	65,340	65%	6,359	1.5	3,223	1,004	58,981	1.5	39,321	1,800
Hefei Dashushan 合肥大蜀山陵園	87,702	87,702	–	57,006	65%	26,952	12.7	1,781	338	30,054	1.5	20,036	666
Henan FSY 河南福壽園	368,544	302,191	66,353	239,554	65%	4,480	1.6	1,600	1,148	235,074	1.9	123,723	2,000
Shandong FSY 山東福壽園	929,334	522,857	406,477	522,857	65%	13,248	3.0	2,304	2,108	509,609	1.9	268,215	2,300

- Total Area (TA) –The sum of the "Total Owned Area" and "Total Rented Area" which is based on the information from the certificates and contract agreements as provided by the Company, as well as the legal opinion as documented in the property valuation report.

- Total Sellable Area (TSA) – The minimum of "Total Owned Area" and the 65% of "The Total Area". Please note that the "Total Rented Area" is included to the "Total Area" is for the purpose of maintaining the overall "Green Area" and "Parking Facility" at target level.

- No. of Unit Sold (NUS) – The accumulative number of units sold as confirmed from the Company.

- No. of Unit to be Developed (NUTBD) – The derived value based on "Total Sellable Area" (TSA), "Total Developed Area" (TDA) and the "Average Area per New Unit" (AANU). That is,

$$NUTBD = (TSA - TDA)/AANU$$

(ii) Columbarium allocation:

	Total Developed Unit	#Unit Sold	#Unit Left	#Unit to be developed
Shanghai FSY 上海福壽園	11,055	6,485	4,570	62,000
Shanghai Nanyuan 上海南院	13,662	2,785	10,877	82,026
Hefei Dashushan 合肥大蜀山陵園				50,000
Henan FSY 河南福壽園				80,000
Shangdong FSY 山東福壽園				85,000

- No. of Unit to be Developed (NUTBD) – The number of units as confirmed by the Management of the Company in its operation planning.

(iii) Cemetery/Columbarium Companies:

	Shanghai FSY 上海福壽園	Shanghai Nanyuan 上海南院	Hefei Dashushan 合肥大蜀山陵園	Henan FSY 河南福壽園	Shandong FSY 山東福壽園
Cemetery & Columbarium					
Cemetery – #Sellable Unit	153,852	40,325	20,374	124,871	270,323
Cemetery – Price per unit	120,000	48,000	58,000	23,100	40,000
Cemetery – Annual Price Growth Rate	20.00%	30.00%	18.00%	10.00%	10.00%
Cemetery – Planned Annual Sale (Unit)	2,800	1,800	750	1,400	800
Columbarium – #Sellable Unit	66,570	92,903	50,000	80,000	85,000
Columbarium – Price per unit	14,000	3,120	13,450	3,500	5,000
Columbarium – Annual Price Growth Rate	9.00%	20.35%	30.00%	25.00%	20.00%
Columbarium – Planned Annual Sale (Unit)	330	950	300	500	500
Cost of Sale Rate	16.00%	25.00%	18.00%	19.00%	19.00%
Operation Expense Rate	25.00%	26.00%	25.00%	26.00%	25.00%
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%
Profit Margin	44.25%	36.75%	42.75%	41.25%	42.00%
Services					
Forecast 2011 Revenue (RMB)	28,000,000	2,000,000	3,500,000	1,500,000	2,000,000
Annual Revenue Growth Rate	20.00%	20.00%	10.00%	20.00%	15.00%
Cost of Sale Rate	40.00%	45.00%	40.00%	45.00%	50.00%
Operation Expense Rate	0	0	0	0	0
Tax Rate	25.00%	25.00%	25.00%	25.00%	25.00%
Profit Margin	45.00%	41.25%	45.00%	41.25%	37.50%

- No. of Sellable Unit (NSU) – The sum of "No. of Unit Left" (NUL) and"No. of Unit to be Developed" (NUTBD) as shown in Note 10 (i) & (ii).

- Price per Unit (PPU) – The forecast of the 2010 average unit price as confirmed by the Management of the Company. For Cemetery Sales, the PPU includes sales from cemetery related products or accessories, such as gravestones, monuments, and sculptures.

- Annual Price/Revenue/Unit Growth Rate (APGR/ARGR/AUGR) – The PPU or Revenue will undergo very fast growth in the period of next 5 years at growth rate as depicted in the above table, and then gradually slow down in another period of the following 5 years to a more sustainable rate of 3.24%, which is the long-term averaged annual price indices of China. In addition, some companies may also have additional room for business growth (i.e. AUGR). As confirmed by the Management of the Company, the forecast is based on:

  - The general economy, industrial outlook, the demographic trend, as well as the operational improvement the management will bring about.

  - The price differentiation as a result of the branding effect on well-recognized Shanghai FSY to charge price premium on all the products and services on the Acquired Assets.

  - Price Segmentation Strategy is employed so that different class of products and services are provided to different customers, in particular, premium products/services to target high net-worth customers for premium prices. For example, some of the clients have already committed to buy cemetery units which are over RMB3.5 Millions. With the annual sale volume on such premium segment is expected to grow, the average prices are expected to grow fast over the coming years.

  - The specific situations, such as the cemetery development maturity life cycle, the local supply & demand, etc. of the companies will result in different growth factors. For example:

    - Shanghai FSY and Shanghai Nanyuan are in a very unique position with the expectation to capture an aggregated total of 7% market share (i.e. equivalent to around 7,000 cemetery units based on the death rate of Shanghai) from the current level in the next 5 years. In addition, while the positioning of both these companies is about the same, Shanghai Nanyuan is far behind Shanghai FSY in term of its unit price. Hence, a higher price growth rate is expected for Shanghai Nanyuan.

- Henan FSY and Shandong FSY have completed their initial development stage, and are now entering into the fast growth business period. While the price may increase moderately in the next 5 years, the annual unit sale is expected to grow very fast to reach the level of about 3,000 and 1,600 units for Henan FSY and Shandong FSY, respectively.

- Hefei FSY is expected to have price growth rate in the medium range among the above companies. The annual unit sale is expected to maintain more or less at the current level.

- Planned Annual Sale (PNA) – The operational plan, which is based on the current sale and the operational improvement that is to be brought about, as confirmed by the Management of the Company.

- Cost of Sale Rate (COSR) – The operational plan, which is based on the historical data, the improvement in the sales forecast, and the other operational improvements that are to be brought about, as confirmed by the Management of the Company.

- Operation Expense Rate (OER) – The operational plan, which is based on the historical data, the improvement in the sales forecast, and the other operational improvement that are to be brought about, as confirmed by the Management of the Company.

- Tax Rate (TR) – The applicable tax rate as confirmed by the Management of the Company and the audited financial reports.

- Profit Margin (PM) – The derived value based on the COSR, OER and TR. That is,

$$PM = (1\text{-}COSR\text{-}OER) \times (1 - TR)$$

- 2011 Revenue – The forecast revenue which is based on the current financial data and the other operational improvements that are to be brought about, as confirmed by the Management of the Company.

(iv) Funeral Servicing Companies:

	Chongqing Anle 重慶安樂	Chongqing FS 重慶殯儀	Hefei Renben 合肥人本
Forecast 2011 Revenue (RMB)	25,000,000	17,000,000	7,500,000
Annual Revenue Growth Rate	10.00%	20.00%	30.00%
Cost of Sale Rate	28.00%	26.00%	36.00%
Operation Expense Rate	36.75%	43.74%	40.20%
Tax Rate	15.00%	25.00%	25.00%
Profit Margin	29.97%	22.70%	17.85%

- Similar to the Cemetery/Columbarium Companies, the Price per Unit (PP) for Funeral Servicing Companies will also undergo very fast growth in the period of next 5 years at growth rate as depicted in the above table, and then gradually slow down in another period of following 5 years to a more sustainable rate of 3.24%, which is the long-term averaged annual price indices of China.

11. According to the paper "Marketability and Value: Measuring the Illiquidity Discount" written by Professor Aswath Damodaran of Stern School of Business, NYU; the discount for non-marketability of shares is estimated to be in the range of 30%-35%. In this exercise, a discount of 35% is applied.

10. VALUATION COMMENTS

As part of our analysis, we have reviewed the financial and business information with such information, project documentation and other pertinent data concerning the equity interests have been made available to us. Such information has been provided by the Company. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and obtained such further information as is considered necessary for the purposes of this valuation exercise.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, and Ascent Partners.

11. RISK FACTORS

Economic, political and social considerations

Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian. None of these changes can be foreseen with certainty.

Regulation & Applicable Laws

The cemetery and funeral service industry is highly regulated. Situation may arise that the current laws and policies, such as cemetery land use requirements, environment protection, tax rates, business practices and license requirements, labour laws, and other regulatory obligations, need to be amended or more newly regulations to be imposed upon the industrial players. For example, the use of the acquired cemetery land may be changed to different terms, or different applicable taxes may be applied. Any of such changes may have adverse impacts to both the business operations and financial implications to Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian.

Technological changes

Any change in the technological developments and advancements, as well as innovation in type of services, may have impacts on the projections of the future income of the Company. To remain competitive in the industry, the Company may be required to stay abreast with the technology and innovation. If trend in customer preferences cannot be anticipated and addressed, the future growth expectation of Shanghai FSY, Shanghai Nanyuan, Shanghai FSY Consulting, Henan FSY, Chongqing Anle, Chongqing FS, Shandong FSY, Hefei Dashushan, Hefei Renben and Heifei Huazhijian may not be sustainable.

Inflation

The concurrent loosening of monetary policies by the central banks in many developed and developing countries poses a significant risk of inflation, which may erode the profitability of the Company if the cost cannot be passed to the consumers.

Company specific risk

The operations of the companies may perform better or worse than our expectation, and the resulting earnings and cash flows will be very different from our estimates. Any incidence, whether it is exogenous or endogenous, cannot be precluded.

12. OPINION OF VALUE

Based on our investigation and analysis outlined in this report, we are of the opinion that as at the **30 September 2010**, the fair value of:

- **Shanghai Fu Shou Yuan Industry Development Co., Ltd.** is **RMB2,573,871,579** (RENMINBI TWO BILLION FIVE HUNDRED SEVENTY THREE MILLION EIGHTY HUNDRED SEVENTY ONE THOUSAND AND FIVE HUNDRED SEVENTY NINE ONLY);

- **Shanghai Nanyuan Industry Development Co., Ltd.** is **RMB692,586,499** (RENMINBI SIX HUNDRED NINETY TWO MILLION FIVE HUNDRED EIGHTY SIX THOUSAND AND FOUR HUNDRED NINETY NINE ONLY);

- **Shanghai Fu Shou Yuan Consulting & Management Co., Ltd.** is not significant to be included.

- **Hefei Dashushan Culture Cemetery Co., Ltd.** is **RMB217,976,451** (RENMINBI TWO HUNDRED sevenTEEN MILLION NINE HUNDRED SEVENTY SIX THOUSAND AND FOUR HUNDRED FIFTY ONE ONLY);

- **Henan Fu Shou Yuan Industry Co., Ltd.** is **RMB185,154,085** (RENMINBI ONE HUNDRED EIGHTY FIVE MILLION ONE HUNDRED FIFTY FOUR THOUSAND AND EIGHTY FIVE ONLY);

- **Shandong Fu Shou Yuan Development Co., Ltd.** is **RMB188,156,253** (RENMINBI ONE HUNDRED EIGHTY EIGHT MILLION ONE HUNDRED FIFTY SIX THOUSAND AND TWO HUNDRED FIFTY THREE ONLY);

- **Chongqing Anle Services Co., Ltd.** is **RMB45,658,230** (RENMINBI FORTY FIVE MILLION SIX HUNDRED FIFTY EIGHT THOUSAND AND TWO HUNDRED THIRTY ONLY);

- **Chongqing Anle Funeral Service Co. Ltd.** is **RMB35,268,167** (RENMINBI THIRTY FIVE MILLION TWO HUNDRED SIXTY EIGHT THOUSAND AND ONE HUNDRED SIXTY SEVEN ONLY);

- **Hefei Renben Funeral Service Co. Ltd.** is **RMB18,423,176** (RENMINBI EIGHTEEN MILLION FOUR HUNDRED TWENTY THREE THOUSAND AND ONE HUNDRED SEVENTY SIX ONLY);

- **Hefei Huazhijian Co., Ltd.** is not significant to be included.

- The aggregate value is **RMB3,269,585,225** (RENMINBI THREE BILLION TWO HUNDRED SIXTY NINE MILLION FIVE HUNDRED EIGHTY FIVE THOUSAND AND TWO HUNDRED TWENTY FIVE ONLY) on the following equity interests:

    - **100% – Shanghai Fu Shou Yuan Industry Development Co., Ltd.**
    - **40% – Shanghai Nanyuan Industry Development Co., Ltd.**
    - **100% – Shanghai Fu Shou Yuan Consulting & Management Co., Ltd.**
    - **60% – Hefei Dashushan Culture Cemetery Co., Ltd.**
    - **55% – Henan Fu Shou Yuan Industry Co., Ltd.**
    - **50% – Shandong Fu Shou Yuan Development Co., Ltd.**
    - **100% – Chongqing Anle Services Co., Ltd.**
    - **100% – Chongqing Anle Funeral Service Co. Ltd.**
    - **60% – Hefei Renben Funeral Service Co. Ltd.**
    - **60% – Hefei Huazhijian Co., Ltd.**

For and on behalf of
Ascent Partners Transaction Service Limited

William SW Yuen
Director
CFA, FRM

APPENDIX I. LIMITING CONDITIONS

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to us during the course of our valuation. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial statements give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.

3. Ascent Partners shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

4. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

5. Our conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

6. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the date of this report.

7. This valuation report has been prepared solely for the use of the designated party. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent.

8. This report is confidential to the client for the specific purpose to which it refers. In accordance with our standard practice, we must state that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

As the valuation report set out in Appendix V of this circular is based on discounted cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, from BDO, the independent reporting accountants of the Company on the discounted future estimated cash flows in connection with the valuation of the Acquired Assets.

A. LETTER FROM BDO

BDO

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

23 February 2011

The Board of Directors
China Health Holdings Limited
Unit C, 19/F
Entertainment Building
30 Queen's Road
Central

Dear Sirs

China HealthCare Holdings Limited (the "Company")
Underlying cash flow forecasts of the valuation of Equity Interest in Shanghai Fu Shou Yuan Industry Development Co., Ltd., Shanghai Nanyuan Industry Development Co., Ltd., Shanghai Fu Shou Yuan Consulting & Management Co. Ltd., Henan Fu Shou Yuan Industry Co., Ltd., Chongqing Anle Services Co. Ltd., Chongqing Anle Funeral Service Co., Ltd., Shandong Fu Shou Yuan Development Co., Ltd., Hefei Dashushan Culture Cemetery Co., Ltd., Hefei Renben Funeral Service Co., Ltd. and Hefei Huazhijian Co., Ltd. (together referred to as the "Target Group").

INDEPENDENT ASSURANCE REPORT

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the underlying cash flow forecasts of the valuation of Equity Interest in Shanghai Fu Shou Yuan Industry Development Co., Ltd., Shanghai Nanyuan Industry Development Co., Ltd., Shanghai Fu Shou Yuan Consulting & Management Co. Ltd., Henan Fu Shou Yuan Industry Co., Ltd., Chongqing Anle Services Co. Ltd., Chongqing Anle Funeral Service Co., Ltd., Shandong Fu Shou Yuan Development Co., Ltd., Hefei Dashushan Culture Cemetery Co., Ltd, Hefei Renben Funeral Service Co., Ltd. and Hefei Huazhijian Co., Ltd. (together referred to as the "Target Group"). as at 30 September 2010 (hereinafter referred to as the "Underlying Forecast") which is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Underlying Forecast is set out in the Appendix V to the Company's circular dated 23 February 2011 (the "Circular").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND OURSELVES

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast in accordance with the basis and assumptions determined by the directors and set out in the Appendix V to the circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the Underlying Forecasts and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to report our conclusion solely to you, as a body, solely for the purpose of reporting under Rule 14.61 of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Because the Underlying Forecast relates to cash flows, the Company's accounting policies are not applicable to the preparation of the Underlying Forecast. The Assumptions include hypothetical assumptions about future events and management actions that cannot be confirmed or verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on the Acquired Assets.

CONCLUSION

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions.

Yours faithfully
For and on behalf of

BDO Limited
Certified Public Accountants
Hong Kong

As the valuation report set out in Appendix V of this circular is based on discounted cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, from Hercules Capital Limited, the financial adviser of the Company on the discounted future estimated cash flows in connection with the valuation of the Acquired Assets.

B. LETTER FROM HERCULES CAPITAL LIMITED

Hercules Capital Limited
1503 Ruttonjee House
11 Duddell Street
Central, Hong Kong

23 February 2011

The Directors
China HealthCare Holdings Limited
Unit C, 19/F Entertainment Building,
30 Queen's Road, Central,
Hong Kong

Dear Sirs,

We refer to the valuation of the equity interest in the Acquired Assets (the "Valuation") dated 30 September 2010 prepared by Ascent Partners as set out in Appendix V to the circular of the Company dated 23 February 2011 (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

As stated in the valuation report from Ascent Partners, the Valuation has been arrived at based on the income approach, which takes into account the future cashflow forecast of the Acquired Assets. As such, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed the forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with you and Ascent Partners the basis and assumptions of the forecast. We have also considered the letter issued by BDO dated 23 February addressed to yourselves and ourselves regarding the calculations and accounting policies upon which the forecast has been made.

On the basis of the foregoing, we are satisfied that the forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

A. SHANGHAI FSY GROUP

For the year ended 31 December 2007

Results

For the year ended 31 December 2007, Shanghai FSY Group recorded revenue of approximately RMB182.2 million. The profit for the year attributable to the owners of Shanghai FSY amounted to approximately RMB46.4 million.

Business Review

For the year ended 31 December 2007, Shanghai FSY Group was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of funeral arrangement services in the PRC.

During the year under review, Shanghai FSY Group operated two cemeteries in Qingpu and Pudong, Shanghai respectively and one funeral house in Yuzhong, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Group relied principally on bank borrowings, funds provided by shareholders to finance its business.

For the year ended 31 December 2007, the cash and cash equivalents increased by approximately RMB47.9 million to approximately RMB66.2 million as at 31 December 2007. The increase in cash and cash equivalents was mainly attributable to net cash inflow from operating activities and investing activities of approximately RMB46.9 million and RMB1.1 million respectively. The net cash used in financing activities amounted to approximately RMB0.1 million. Net cash from investing activities during the year under review included dividend received of approximately RMB1.4 million, proceeds from disposal of property, plant and equipment of approximately RMB2.4 million and purchase of property, plant and equipment of approximately RMB2.7 million while net cash used in financing activities consisted of dividends paid of approximately RMB30.1 million and capital contribution from non-controlling interests of approximately RMB30.0 million.

As at 31 December 2007, outstanding bank borrowings amounted to approximately RMB33.0 million, while the amounts due to shareholders, holding company and non-controlling interests, which were unsecured, interest-free and repayable on demand, were approximately RMB1.0 million, RMB18.6 million and RMB0.4 million respectively. The loan from a shareholder of approximately RMB33.7 million was unsecured and repayable within one year at an interest rate of 2.56% to 3.87% per annum. The pledged bank deposit, being bank deposits pledged to certain banks to secure the bank borrowing which bear interest at an effective rate of 1.58% amounted to approximately RMB20.0 million. As at 31 December 2007, certain property, plant and equipment with net book value of approximately RMB14.6 million were pledged as securities for the bank borrowings. Shanghai FSY Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.65 as at 31 December 2007.

All expenditures of Shanghai FSY Group were denominated in RMB. Shanghai FSY Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2007, Shanghai FSY Group had financial guarantees of US$6.8 million in respect of banking facilities made available to the holding company. Save as disclosed above, Shanghai FSY Group did not have any contingent liability as at 31 December 2007.

Material Investments, Acquisitions or Disposals

Shanghai FSY Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2007, Shanghai FSY Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2007, approximately 92.0% of Shanghai FSY Group's turnover was generated from the sales of grave plots and niches for cremation urns while the balance of the revenue was generated from the funeral arrangement services. The sales of grave plots and niches for cremation urns and the provision of funeral arrangement services recorded a segment gain of approximately RMB64.9 million and RMB4.4 million respectively.

Human Resources

Shanghai FSY Group had 348 employees as at 31 December 2007 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB15.1 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2008

Results

For the year ended 31 December 2008, Shanghai FSY Group recorded revenue of approximately RMB250.9 million, representing an increase of approximately 37.7% as compared to the previous year. The increase in revenue was mainly attributable to the increase in selling price of grave plots and niches for cremation urns and the provision of personalized value-added services to the customers as well as the increase in number of grave plots sold during the year under review. The selling and distribution expenses, administrative expenses and finance costs for the year ended 31 December 2008 amounted to approximately RMB30.1 million, RMB63.7 million and RMB7.4 million respectively, representing an increase of approximately 73.0%, 39.4% and 124.2% respectively. The increase in selling and distribution expenses was mainly attributable to the increase in salaries and commission paid, while the increase in administrative expenses was mainly attributable to the increase in salaries and depreciation during the year under review. The increase in finance costs was mainly attributable to the increase in bank borrowings from RMB33.0 million as at 31 December 2007 to RMB60.0 million as at 31 December 2008. The profit for the year attributable to the owners of Shanghai FSY amounted to approximately RMB56.6 million, representing an increase of approximately 22.0%.

Business Review

For the year ended 31 December 2008, Shanghai FSY Group was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of funeral arrangement services in the PRC.

During the year under review, in addition to the two cemeteries operated by Shanghai FSY Group in Qingpu and Pudong, Shanghai, Shanghai FSY Group acquired a cemetery in Xinzheng, Henan in March 2008. Shanghai FSY Group also operated one funeral house in Yuzhong, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Group relied principally on bank borrowings and funds provided by shareholders to finance its business.

For the year ended 31 December 2008, the cash and cash equivalents decreased by approximately RMB18.7 million to approximately RMB47.4 million as at 31 December 2008. The reduction in cash and cash equivalents for the year ended 31 December 2008 was attributable to net cash from the operating activities amounted to approximately RMB91.1 million and net cash used in investing activities and financing activities amounted to approximately RMB29.6 million and RMB80.3 million respectively. The net cash used in investing activities during the year under review mainly included dividend received amounted to approximately RMB2.1

million, purchase of property, plant and equipment amounted to approximately RMB6.6 million, acquisition of a subsidiary, Henan Fu Shou Yuan Industry Co., Ltd., amounted to approximately RMB45.3 million and decrease in pledged bank deposit amounted to approximately RMB20.0 million. Meanwhile, net cash used in financing activities comprised of payment of dividends amounted to approximately RMB15.3 million, loan to a related company of non-controlling interest amounted to approximately RMB92.0 million, proceed from bank borrowings amounted to approximately RMB60.0 million and repayment of bank borrowings amounted to approximately RMB33.0 million.

As at 31 December 2008, outstanding bank borrowings amounted to approximately RMB60.0 million, while the amounts due to shareholders, holding company and non-controlling interests, which were unsecured, interest-free and repayable on demand, were approximately RMB3.1 million, RMB22.0 million and RMB94.0 million respectively. The loan from a shareholder amounted to approximately RMB50.9 million as at 31 December 2008 was unsecured and repayable within one year with an interest rate of 2.56% to 3.87% per annum. As at 31 December 2008, certain property, plant and equipment with net book value of approximately RMB32.7 million and certain cemetery assets with net book value of approximately RMB80.1 million were pledged as securities for the bank borrowings. Shanghai FSY Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.67 as at 31 December 2008.

All expenditures of Shanghai FSY Group were denominated in RMB. Shanghai FSY Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2008, Shanghai FSY Group did not have any contingent liability.

Material Investments, Acquisitions or Disposals

For the year under review, Shanghai FSY Group acquired 55% equity interest in Henan Fu Shou Yuan Industry Co., Ltd. for a consideration of approximately RMB55.6 million. Save as disclosed above, Shanghai FSY Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2008, Shanghai FSY Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2008, approximately 91.6% of Shanghai FSY Group's turnover was generated from the sales of grave plots and niches for cremation urns while the balance of the revenue was generated from the funeral arrangement services. The sales of grave plots and niches for cremation urns and the provision of funeral arrangement services recorded a segment gain of approximately RMB74.9 million and RMB6.2 million respectively.

Human Resources

Shanghai FSY Group had 441 employees as at 31 December 2008 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB29.2 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2009

Results

For the year ended 31 December 2009, Shanghai FSY Group recorded revenue of approximately RMB252.1 million, representing an increase of approximately 0.5% when compared with that of the previous year. The selling and distribution expenses, administrative expenses and finance costs for the year ended 31 December 2009 amounted to approximately RMB29.2 million, RMB57.4 million and RMB5.0 million respectively, representing a decrease of approximately 3.0%, 9.9% and 32.4% respectively. The decrease in administrative expenses was mainly attributable to the reduction in management fee and depreciation while the decrease in finance costs was mainly attributable to the reduction in bank borrowings from RMB60.0 million as at 31 December 2008 to RMB49.95 million as at 31 December 2009. The profit for the year attributable to the owners of Shanghai FSY amounted to approximately RMB73.5 million, representing an increase of approximately 29.9%. The increase in profit was mainly attributable to the increase in gross profit margin from approximately 69.9% for the year ended 31 December 2008 to approximately 76.4% for the year ended 31 December 2009 resulted from decreases in cost of sales.

Business Review

For the year ended 31 December 2009, Shanghai FSY Group was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of funeral arrangement services in the PRC.

During the year under review, Shanghai FSY Group operated two cemeteries in Qingpu and Pudong, Shanghai respectively, one cemetery in Xinzheng, Henan and one funeral house in Yuzhong, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Group relied principally on bank borrowings and funds provided by shareholders to finance its business.

For the year ended 31 December 2009, the cash and cash equivalents increased by approximately RMB27.3 million to approximately RMB74.7 million as at 31 December 2009. The increase in cash and cash equivalents was attributable to the net cash inflow from the operating activities and financing activities of approximately RMB26.0 million and RMB31.2 million respectively. The net cash used in investing activities amounted to approximately RMB30.0 million. The cash inflow from financing activities was mainly contributed by the repayment of loan by a related company of non-controlling interest of approximately RMB92.0 million and the proceed from bank borrowings of approximately RMB30.0 million while net cash used in investing activities was mainly attributable to the purchase of property, plant and equipment of approximately RMB32.3 million.

As at 31 December 2009, outstanding bank borrowings amounted to approximately RMB49.95 million, while the amounts due to shareholders and holding company, which were unsecured, interest-free and repayable on demand, were approximately RMB3.9 million and RMB30.8 million respectively. The loan from a shareholder amounted to approximately RMB62.6 million as at 31 December 2009 was unsecured and repayable within one year with an interest rate of 2.56% to 3.87% per annum. As at 31 December 2009, certain property, plant and equipment with net book value of approximately RMB32.6 million and certain cemetery assets with net book value of approximately RMB76.6 million were pledged as securities for the bank borrowings. Shanghai FSY Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.64 as at 31 December 2009.

All expenditures of Shanghai FSY Group were denominated in RMB. Shanghai FSY Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2009, Shanghai FSY Group did not have any contingent liability.

Material Investments, Acquisitions or Disposals

Shanghai FSY Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2009, Shanghai FSY Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2009, approximately 90.5% of Shanghai FSY Group's turnover was generated from the sales of grave plots and niches for cremation urns while the balance of the revenue was generated from the funeral arrangement services. The sales of grave plots and niches for cremation urns and the provision of funeral arrangement services recorded a segment gain of approximately RMB98.5 million and RMB7.1 million respectively.

Human Resources

Shanghai FSY Group had 472 employees as at 31 December 2009 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB30.2 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the nine months ended 30 September 2010

Results

For the nine months ended 30 September 2010, Shanghai FSY Group recorded revenue of approximately RMB232.3 million, representing an increase of approximately 19.3% when compared with that of the last corresponding period. The increase in revenue for the period was mainly attributable to the well acceptance of the personalised added-value services of Shanghai Fu Shou Yuen and increase in consumer price index, which boosted the selling price of grave plots during the period under review. Furthermore, the personalized value-added services offered by Shanghai FSY Group were well recognized by the public. The selling and distribution expenses and administrative expenses for the nine months ended 30 September 2010 amounted to approximately RMB29.4 million and RMB44.5 million respectively, representing an increase of approximately 16.7% and 2.3% respectively. The increase in selling and distribution expenses was mainly attributable to the increase in commission paid during the period under review. Meanwhile, the finance costs for the nine months ended 30 September 2010 was approximately RMB0.9 million, representing a decrease of approximately 76.8%, with a further decrease in bank borrowing from RMB49.95 million as at 31 December 2009 to RMB29.95 million as at 30 September 2010. The profit for the period attributable to the owners of Shanghai FSY amounted to approximately RMB75.7 million, representing an increase of approximately 36.4%.

Business Review

For the nine months ended 30 September 2010, Shanghai FSY Group was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of funeral arrangement services in the PRC.

During the period under review, Shanghai FSY Group operated two cemeteries in Qingpu and Pudong, Shanghai, one cemetery in Xinzheng, Henan and one funeral house in Yuzhong, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Group relied principally on bank borrowings and funds provided by shareholders to finance its business.

For the nine months ended 30 September 2010, the cash and cash equivalents increased by approximately RMB47.8 million to approximately RMB122.5 million as at 30 September 2010. The increase in cash and cash equivalents was attributable to net cash inflow from operating activities of approximately RMB161.3 million. The net cash used in investing activities, which was mainly used for the purchase of property, plant and equipment, and financing activities amounted to approximately RMB21.1 million and RMB92.4 million respectively. During the year, Shanghai FSY Group paid dividend of RMB72.4 million to its shareholders and repaid bank borrowings of approximately RMB40.0 million. Meanwhile, it raised additional bank borrowings of approximately RMB20.0 million for working capital purpose.

As at 30 September 2010, outstanding bank borrowings amounted to approximately RMB29.95 million, while the amount due to non-controlling interests, which was unsecured, interest-free and repayable on demand, was approximately RMB0.1 million. Amount due to shareholders amounted to approximately RMB55.3 million as at 30 September 2010, of which approximately RMB1.4 million was unsecured, interest-free and repayable on demand while the remaining balance was unsecured, interest-free and repayable over one year. As at 30 September 2010, certain property, plant and equipment with net book value of approximately RMB14.9 million and certain cemetery assets with net book value of approximately RMB74.8 million were pledged as securities for the bank borrowings. Shanghai FSY Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.58 as at 30 September 2010.

All expenditures of Shanghai FSY Group were denominated in RMB. Shanghai FSY Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 September 2010, Shanghai FSY Group did not have any contingent liability.

Material Investments, Acquisitions or Disposals

Shanghai FSY Group had not acquired or disposed of any subsidiary or affiliated company during the period under review.

As at 30 September 2010, Shanghai FSY Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the nine months ended 30 September 2010, approximately 90.7% of Shanghai FSY Group's revenue was generated from the sales of grave plots and niches for cremation urns while the balance of the revenue was generated from the funeral arrangement services. The sales of grave plots and niches for cremation urns and the provision of funeral arrangement services recorded a segment gain of approximately RMB96.9 million and RMB7.7 million respectively.

Human Resources

Shanghai FSY Group had 516 employees as at 30 September 2010 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB23.0 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

B. HEFEI DASHUSHAN GROUP

For the year ended 31 December 2007

Results

For the year ended 31 December 2007, Hefei Dashushan Group recorded revenue of approximately RMB20.8 million. The profit for the year attributable to the owners of Hefei Dashushan amounted to approximately RMB8.4 million.

Business Review

For the year ended 31 December 2007, Hefei Dashushan Group was principally engaged in development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services in the PRC by operating one cemetery in Dashushan, Hefei.

Capital Structure, Liquidity and Financial Resources

Hefei Dashushan Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Hefei Dashushan Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2007, the cash and cash equivalents increased by approximately RMB6.7 million to approximately RMB20.1 million as at 31 December 2007. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities of approximately RMB4.9 million and proceeds from disposal of financial assets held for trading of approximately RMB4.9 million while the major cash outflow was used for investment in financial assets held for trading. Hefei Dashushan Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.60 as at 31 December 2007.

All expenditures of Hefei Dashushan Group were denominated in RMB. Hefei Dashushan Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2007, Hefei Dashushan Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Hefei Dashushan Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2007, Hefei Dashushan Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Hefei Dashushan Group was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services in the PRC during the year under review.

Human Resources

Hefei Dashushan Group had 61 employees as at 31 December 2007 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB2.6 million.

Salaries of employees were maintained at a competitive level and Hefei Dashushan Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2008

Results

For the year ended 31 December 2008, Hefei Dashushan Group recorded revenue of approximately RMB27.5 million, representing an increase of approximately 32.2% when compared with that of the previous year. The increase in revenue was mainly attributable to the increase in selling price of the grave plots, niches for cremation urns and tomb sets and the expansion of its business scope to provision of funeral products, flowers arrangement and consultation services during the year under review. The selling expenses and administrative expenses for the year ended 31 December 2008 amounted to approximately RMB2.4 million and RMB6.5 million respectively, representing an increase of approximately 20.0% and 16.1% respectively. The increase in selling expenses was mainly attributable to the increase in commission paid while the increase in administrative expenses was mainly attributable to the increase in office expenses during the year under review. Due to the substantial increase in revenue, the profit for the year attributable to the owners of Hefei Dashushan increased by 33.3% to approximately RMB11.2 million.

Business Review

For the year ended 31 December 2008, Hefei Dashushan Group was principally engaged in development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services in the PRC by operating one cemetery in Dashushan, Hefei.

In September 2008, Hefei Dashushan Group established a wholly-owned subsidiary to engage in the provision of funeral products, flowers arrangement and consultation services.

Capital Structure, Liquidity and Financial Resources

Hefei Dashushan Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Hefei Dashushan Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2008, the cash and cash equivalents increased by approximately RMB7.6 million to approximately RMB27.7 million as at 31 December 2008. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities of approximately RMB15.1 million. During the year, Hefei Dashushan Group used RMB7.0 million for dividend payment and approximately RMB0.9 million for purchase of property, plant and equipment. The investment in financial assets held for trading had generated net cash inflow of approximately RMB0.4 million to Heifei Dashushan Group for the year ended 31 December 2008. Hefei Dashushan Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.66 as at 31 December 2008.

All expenditures of Hefei Dashushan Group were denominated in RMB. Hefei Dashushan Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2008, Hefei Dashushan Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

In September 2008, Hefei Dashushan Group established a wholly-owned subsidiary, namely Hefei Renben Funeral Service Co., Ltd. in the PRC with a registered capital of RMB1.2 million. Save as disclosed above, Hefei Dashushan Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2008, Hefei Dashushan Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Hefei Dashushan Group was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services in the PRC during the year under review.

Human Resources

Hefei Dashushan Group had 90 employees as at 31 December 2008 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB3.1 million.

Salaries of employees were maintained at a competitive level and Hefei Dashushan Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2009

Results

For the year ended 31 December 2009, Hefei Dashushan Group recorded revenue of approximately RMB33.0 million, representing an increase of approximately 20.0% when compared with that of the previous year. Such increase was mainly attributable to the increase in selling price of the grave plots, niches for cremation urns and tomb sets. The selling expenses and administrative expenses for the year ended 31 December 2009 amounted to approximately RMB4.1 million and RMB7.8 million respectively, representing an increase of approximately

70.8% and 20.0% respectively. The increase in selling expenses was mainly attributable to the increase in salaries, commission paid, advertising expenses and depreciation while the increase in administrative expenses was mainly attributable to the increase in office expenses and staff costs during the year under review. Owing to the increases in expenses, the profit for the year ended 31 December 2009 attributable to the owners of Hefei Dashushan decreased by approximately 4.5% to approximately RMB10.7 million.

Business Review

For the year ended 31 December 2009, Hefei Dashushan Group was principally engaged in development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services such as sales of funeral products, provision of flowers arrangement and consultation services in the PRC by operating one cemetery in Dashushan, Hefei and a funeral service company.

Capital Structure, Liquidity and Financial Resources

Hefei Dashushan Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Hefei Dashushan Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2009, the cash and cash equivalents increased by approximately RMB4.7 million to approximately RMB32.4 million as at 31 December 2009. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities of approximately RMB15.5 million and investment in financial assets held for trading of approximately RMB0.2 million. The major cash outflow for Heifei Dashushan Group for the year ended 31 December 2009 was dividend payment of RMB10.7 million. Hefei Dashushan Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.67 as at 31 December 2009.

All expenditures of Hefei Dashushan Group were denominated in RMB. Hefei Dashushan Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2009, Hefei Dashushan Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Hefei Dashushan Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2009, Hefei Dashushan Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Hefei Dashushan Group was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the year under review.

Human Resources

Hefei Dashushan Group had 91 employees as at 31 December 2009 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB3.5 million.

Salaries of employees were maintained at a competitive level and Hefei Dashushan Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the nine months ended 30 September 2010

Results

For the nine months ended 30 September 2010, Hefei Dashushan Group recorded revenue of approximately RMB32.5 million, representing an increase of approximately 24.5% when compared with that of the last correspondence period. The increase in revenue was mainly attributable to the increase in selling price of grave plots, niches for cremation urns and tomb sets. The selling expenses and administrative expenses for the nine months 30 September 2010 amounted to approximately RMB4.2 million and RMB2.7 million respectively, representing an increase of approximately 35.5% and 12.5% respectively. The increase in selling expenses was mainly attributable to the increase in salaries and commission paid. The profit for the period attributable to the owners of Hefei Dashushan amounted to approximately RMB16.0 million, representing an increase of approximately 60.0%. Such increase was mainly attributable to the improvement in gross profit by approximately 47.9%, which increased from approximately RMB18.6 million for the nine months ended 30 September 2009 to approximately RMB27.5 million for the period under review.

Business Review

For the nine months ended 30 September 2010, Hefei Dashushan Group was principally engaged in development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets and provision of related services such as sales of funeral products, provision of flowers arrangement and consultation services in the PRC by operating one cemetery in Dashushan, Hefei and a funeral service company.

In May 2010, Hefei Dashushan established a wholly-owned subsidiary principally engaged in the retail and wholesale of flowers and artist flowers, interior design, window display design and gardening.

Capital Structure, Liquidity and Financial Resources

Hefei Dashushan Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Hefei Dashushan Group relied principally on its internal resources to finance its business.

For the nine months ended 30 September 2010, the cash and cash equivalents increased by approximately RMB6.0 million to approximately RMB38.4 million as at 30 September 2010. The increase in cash and cash equivalents was mainly attributable to net cash inflow from operating activities of approximately RMB16.1 million. Heifei Dashushan Group used RMB10.0 million for dividend payment during the nine months ended 30 September 2010. Hefei Dashushan Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.39 as at 30 September 2010.

All expenditures of Hefei Dashushan Group were denominated in RMB. Hefei Dashushan Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 September 2010, Hefei Dashushan Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

In May 2010, Hefei Dashushan established a wholly-owned subsidiary, namely Hefei Huazhijian Co., Ltd. in the PRC with a registered capital of RMB500,000. Save as disclosed above, Hefei Dashushan Group had not acquired or disposed of any subsidiary or affiliated company during the period under review.

As at 30 September 2010, Hefei Dashushan Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Hefei Dashushan Group was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the period under review.

Human Resources

Hefei Dashushan Group had 98 employees as at 30 September 2010 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB3.9 million.

Salaries of employees were maintained at a competitive level and Hefei Dashushan Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

C. SHANDONG FSY

For the year ended 31 December 2007

Results

For the year ended 31 December 2007, Shandong FSY recorded revenue of approximately RMB9.1 million and the loss for the year amounted to approximately RMB2.8 million.

Business Review

For the year ended 31 December 2007, Shandong FSY was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of related management services in the PRC by operating one cemetery in Changqing, Jinan, Shandong.

Capital Structure, Liquidity and Financial Resources

Shandong FSY's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shandong FSY relied principally on bank borrowings and funds provided by holding company and subsidiary of a shareholder to finance its business.

For the year ended 31 December 2007, the cash and cash equivalents decreased by approximately RMB1.8 million to approximately RMB2.1 million as at 31 December 2007. The decrease in cash and cash equivalents was mainly attributable to net cash used in operating activities and investing activities for the year ended 31 December 2007 of approximately RMB1.3 million and RMB0.4 million respectively. The net cash used in investing activities for the year under review mainly represented the purchase of property, plant and equipment amounted to approximately RMB0.5 million.

As at 31 December 2007, outstanding bank borrowings amounted to approximately RMB3.65 million, of which RMB3.0 million was unsecured borrowings, while the amounts due to holding company and a subsidiary of a shareholder, which were unsecured, interest-free and repayable on demand, were approximately RMB11.7 million and RMB3.6 million respectively. The loan from holding company amounted to approximately RMB30.6 million as at 31 December 2007 was unsecured and repayable within one year with an interest rate equal to the rate published by the People's Bank of China. As at 31 December 2007, certain property, plant and equipment with aggregate net book value of approximately RMB0.9 million were pledged as securities for certain bank loans. Shandong FSY's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.09 as at 31 December 2007.

All expenditures of Shandong FSY were denominated in RMB. Shandong FSY had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2007, Shandong FSY did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Shandong FSY had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2007, Shandong FSY did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Shandong FSY was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the year under review.

Human Resources

Shandong FSY had 74 employees as at 31 December 2007 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB3.6 million.

Salaries of employees were maintained at a competitive level and Shandong FSY continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2008

Results

For the year ended 31 December 2008, Shandong FSY recorded revenue of approximately RMB11.5 million, representing an increase of approximately 26.4% when compared with that of the previous year. The increase in revenue was mainly attributable to the increase in the sale volume and selling price of the grave plots. The selling expenses, administrative expenses and finance costs for the year ended 31 December 2008 amounted to approximately RMB3.3 million, RMB4.3 million and RMB2.8 million respectively, representing an increase of approximately 17.9%, 13.2% and 3.7% respectively. The increase in selling expenses was mainly attributable to the increase in rental expenses and labour costs while the increase in administrative expenses was mainly attributable to the increase in travelling expenses, utilities and training costs. The loss for the year ended 31 December 2008 was approximately RMB2.1 million, representing a reduction of approximately 25.0%.

Business Review

For the year ended 31 December 2008, Shandong FSY was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of related management services in the PRC by operating one cemetery in Changqing, Jinan, Shandong.

Capital Structure, Liquidity and Financial Resources

Shandong FSY's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shandong FSY relied principally on bank borrowings and funds provided by holding company and subsidiary of a shareholder to finance its business.

For the year ended 31 December 2008, the cash and cash equivalents decreased slightly by approximately RMB44,000 to approximately RMB2.1 million as at 31 December 2008. The decrease in cash and cash equivalents was mainly resulted from net cash used in operating activities, which amounted to approximately RMB2.4 million, and net cash inflow from proceeds of borrowings of approximately RMB2.5 million.

As at 31 December 2008, outstanding bank borrowings amounted to approximately RMB3.65 million, of which RMB3.0 million was unsecured borrowings, while the amounts due to holding company and a subsidiary of a shareholder, which were unsecured, interest-free and repayable on demand, were approximately RMB1.5 million and RMB0.2 million respectively. The loans from holding company and a subsidiary of a shareholder amounted to approximately RMB36.2 million and RMB10.5 million as at 31 December 2008 were unsecured and repayable within one year with an interest rate equal to the rate published by the People's Bank of China. As at 31 December 2008, certain property, plant and equipment with aggregate net book value of approximately RMB3.9 million were pledged as securities for certain bank loans. Shandong FSY's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.11 as at 31 December 2008.

All expenditures of Shandong FSY were denominated in RMB. Shandong FSY had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2008, Shandong FSY did not have any contingent liability.

Material Investments, Acquisitions or Disposals

Shandong FSY had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2008, Shandong FSY did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Shandong FSY was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the year under review.

Human Resources

Shandong FSY had 74 employees as at 31 December 2008 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB4.0 million.

Salaries of employees were maintained at a competitive level and Shandong FSY continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2009

Results

For the year ended 31 December 2009, Shandong FSY recorded revenue of approximately RMB15.4 million, representing an increase of approximately 33.9% when compared with that of the previous year. The increase in revenue was mainly attributable to the increase in the selling price of the grave plots. The selling expenses for the year ended 31 December 2009 amounted to approximately RMB4.1 million, representing an increase of approximately 24.2%. The increase in selling expenses was mainly attributable to the increase in rental expenses, advertising expenses and labour costs. The administrative expenses and finance costs for the year ended 31 December 2009 amounted to approximately RMB4.3 million and RMB2.7 million respectively, representing a slight decrease of approximately 1.9% and 1.9% respectively. The loss for the year amounted to approximately RMB0.1 million, representing a decrease of approximately 95.2%. The decrease in loss for the year was mainly attributable to the increase in gross profit by approximately 41.8%.

Business Review

For the year ended 31 December 2009, Shandong FSY was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of related management services in the PRC by operating one cemetery in Changqing, Jinan, Shandong.

Capital Structure, Liquidity and Financial Resources

Shandong FSY's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shandong FSY relied principally on bank borrowings, funds provided by holding company and a subsidiary of a shareholder to finance its business.

For the year ended 31 December 2009, the cash and cash equivalents increased by approximately RMB1.3 million to approximately RMB3.3 million as at 31 December 2009. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities of approximately RMB2.5 million. The net cash used in purchase of property, plant and equipment, and net repayment of borrowings amounted to approximately RMB0.2 million and RMB1.1 million respectively.

As at 31 December 2009, outstanding bank borrowings amounted to approximately RMB7.65 million, of which RMB7.0 million was unsecured borrowings, while the amounts due to holding company and a subsidiary of a shareholder, which were unsecured, interest-free and repayable on demand, were approximately RMB1.0 million and RMB0.9 million respectively. The loans from holding company and a subsidiary of a shareholder in amount of approximately RMB31.7 million and RMB10.5 million respectively as at 31 December 2009 were unsecured and repayable within one year with an interest rate equal to the rate published by the People's Bank of China. As at 31 December 2009, certain property, plant and equipment with net book value of approximately RMB3.8 million were pledged as securities for certain bank loans. Shandong FSY's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.11 as at 31 December 2009.

All expenditures of Shandong FSY were denominated in RMB. Shandong FSY had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2009, Shandong FSY did not have any contingent liability.

Material Investments, Acquisitions or Disposals

Shandong FSY had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2009, Shandong FSY did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Shandong FSY was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the year under review.

Human Resources

Shandong FSY had 81 employees as at 31 December 2009 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB4.6 million.

Salaries of employees were maintained at a competitive level and Shandong FSY continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the nine months ended 30 September 2010

Results

For the nine months ended 30 September 2010, Shandong FSY recorded revenue of approximately RMB16.3 million, representing an increase of approximately 55.2% when compared with that of the last corresponding period. The increase in revenue was mainly attributable to the increase in the sales volume of the grave plots during the period under review. The selling expenses, administrative expenses and finance costs for the nine months ended 30 September 2010 amounted to approximately RMB4.3 million, RMB4.2 million and RMB2.0 million respectively, representing an increase of approximately 48.3%, 23.5% and 33.3% respectively. The increase in selling expenses was mainly attributable to the increase in rental expenses, vehicles expenses, advertising expenses and labour costs while the increase in administrative expenses was mainly attributable to the increase in salaries and land use tax paid/payable. Given the increase in gross profit by approximately 52.6%, Shandong FSY recorded a profit for the nine months ended 30 September 2010 of approximately RMB0.8 million while a loss of RMB0.2 million was recorded for the last corresponding period.

Business Review

For the nine months ended 30 September 2010, Shandong FSY was principally engaged in development and construction of cemetery for sale of grave plots and niches for cremation urns and provision of related management services in the PRC by operating one cemetery in Changqing, Jinan, Shandong.

Capital Structure, Liquidity and Financial Resources

Shandong FSY's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shandong FSY relied principally on bank borrowings and funds provided by holding company and a subsidiary of a shareholder to finance its business.

For the nine months ended 30 September 2010, the cash and cash equivalents decreased by approximately RMB2.2 million to approximately RMB1.1 million as at 30 September 2010. The decrease in cash and cash equivalents was mainly attributable to the decrease in net cash from operating activities and net cash used in purchase of property, plant and equipment, and repayment of borrowings.

As at 30 September 2010, outstanding unsecured bank borrowings amounted to approximately RMB3.0 million, while the amount due to a subsidiary of a shareholder, which was unsecured, interest-free and repayable on demand, was approximately RMB1.5 million. The loans from holding company and a subsidiary of a shareholder in amount of approximately RMB34.2 million and RMB10.5 million respectively as at 30 September 2010 were unsecured and repayable within one year with an interest rate equal to the rate published by the People's Bank of China. Shandong FSY's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 1.10 as at 30 September 2010.

All expenditures of Shandong FSY were denominated in RMB. Shandong FSY had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 September 2010, Shandong FSY did not have any contingent liability.

Material Investments, Acquisitions or Disposals

Shandong FSY had not acquired or disposed of any subsidiary or affiliated company during the period under review.

As at 30 September 2010, Shandong FSY did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

Shandong FSY was solely engaged in the development and construction of cemetery for sale of grave plots, niches for cremation urns and tomb sets in the PRC during the period under review.

Human Resources

Shandong FSY had 86 employees as at 30 September 2010 and the total staff costs, including directors' and supervisors' remuneration, for the period amounted to approximately RMB4.3 million.

Salaries of employees were maintained at a competitive level and Shandong FSY continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

D. SHANGHAI FSY CONSULTING GROUP

For the year ended 31 December 2007

Results

For the year ended 31 December 2007, Shanghai FSY Consulting Group recorded revenue of approximately RMB12.4 million and the profit for the year attributable to the owners of Shanghai FSY Consulting amounted to approximately RMB2.7 million.

Business Review

For the year ended 31 December 2007, Shanghai FSY Consulting Group was principally engaged in the provision of consulting and management services in relation to development and construction of cemetery and funeral arrangement services in the PRC by operating one funeral house in Shapingbei, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Consulting Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Consulting Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2007, the cash and cash equivalents decreased by approximately RMB0.7 million to approximately RMB3.0 million as at 31 December 2007. The decrease in cash and cash equivalents was mainly attributable to the net cash used in operating activities and purchase of property, plant and equipment, which amounted to approximately RMB0.1 million and RMB0.6 million respectively. Shanghai FSY Consulting Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.50 as at 31 December 2007.

All expenditures of Shanghai FSY Consulting Group were denominated in RMB. Shanghai FSY Consulting Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2007, Shanghai FSY Consulting Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Shanghai FSY Consulting Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2007, Shanghai FSY Consulting Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2007, approximately 63.1% of Shanghai FSY Consulting Group's revenue was generated from the funeral arrangement services while the balance of the revenue was generated from the consulting and management services. The funeral arrangement services and the consulting and management services recorded a segment gain of approximately RMB2.3 million and approximately RMB1.8 million respectively for the year under review.

Human Resources

Shanghai FSY Consulting Group had 69 employees as at 31 December 2007 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB2.1 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Consulting Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2008

Results

For the year ended 31 December 2008, Shanghai FSY Consulting Group recorded revenue of approximately RMB16.0 million, representing an increase of approximately 29.0% when compared with that of the previous year. The increase in revenue was mainly attributable to the increase in revenue from the funeral arrangement service by approximately 39.1% as a result of the increase in the number of customers and the average service fee charged. The selling expenses and administrative expenses for the year ended 31 December 2008 amounted to approximately RMB2.4 million and RMB6.1 million respectively, representing an increase of approximately 26.3% and 190.5% respectively. The increase in selling expenses was mainly attributable to the increase in salaries, commission paid and maintenance expenses while the increase in administrative expenses was mainly attributable to the increase in written off of other receivables and staff costs. Due to the substantial increase in administrative expenses, the profit for the year ended 31 December 2008 attributable to the owners of Shanghai FSY Consulting decreased by approximately 85.2% to approximately RMB0.4 million.

Business Review

For the year ended 31 December 2008, Shanghai FSY Consulting Group was principally engaged in the provision of consulting and management services in relation to development and construction of cemetery and funeral arrangement services in the PRC by operating one funeral house in Shapingbei, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Consulting Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Consulting Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2008, the cash and cash equivalents increased by approximately RMB3.8 million to approximately RMB6.8 million as at 31 December 2008. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities which amounted to approximately RMB3.8 million. Shanghai FSY Consulting Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.52 as at 31 December 2008.

All expenditures of Shanghai FSY Consulting Group were denominated in RMB. Shanghai FSY Consulting Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2008, Shanghai FSY Consulting Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Shanghai FSY Consulting Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2008, Shanghai FSY Consulting Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2008, approximately 68.0% of Shanghai FSY Consulting Group's revenue was generated from the funeral arrangement services while the balance of the revenue was generated from the consulting and management services. The funeral arrangement services and the consulting and management services recorded a segment gain of approximately RMB3.9 million and approximately RMB0.7 million respectively for the year under review.

Human Resources

Shanghai FSY Consulting Group had 69 employees as at 31 December 2008 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB2.8 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Consulting Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the year ended 31 December 2009

Results

For the year ended 31 December 2009, Shanghai FSY Consulting Group recorded revenue of approximately RMB15.8 million, representing a slight drop of approximately 1.25% when compared with that of the previous year. As a result of the increase in salaries, the selling expenses for the year ended 31 December 2009 increased by approximately 16.7% as compared to last year and amounted to approximately RMB2.8 million. The administrative expenses for the year ended 31 December 2009 amounted to approximately RMB4.2 million, representing a drop of approximately 31.1%. The decrease in administrative expenses was mainly attributable to the decrease in written off of other receivables of an amount of RMB1.5 million as compared to the previous year. As such, the profit for the year attributable to the owners of Shanghai FSY Consulting increased by approximately 150.0% to approximately RMB1.0 million.

Business Review

For the year ended 31 December 2009, Shanghai FSY Consulting Group was principally engaged in the provision of consulting and management services in relation to development and construction of cemetery and funeral arrangement services in the PRC by operating one funeral house in Shapingbei, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Consulting Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Consulting Group relied principally on its internal resources to finance its business.

For the year ended 31 December 2009, the cash and cash equivalents increased by approximately RMB4.6 million to approximately RMB11.4 million as at 31 December 2009. The increase in cash and cash equivalents was mainly attributable to the net cash inflow from operating activities of approximately RMB5.1 million. The major cash outflow for the year was used in purchase of property, plant and equipment, which amounted to approximately RMB0.4 million. Shanghai FSY Consulting Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.33 as at 31 December 2009.

All expenditures of Shanghai FSY Consulting Group were denominated in RMB. Shanghai FSY Consulting Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 December 2009, Shanghai FSY Consulting Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Shanghai FSY Consulting Group had not acquired or disposed of any subsidiary or affiliated company during the year under review.

As at 31 December 2009, Shanghai FSY Consulting Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 December 2009, approximately 76.5% of Shanghai FSY Consulting Group's revenue was generated from the funeral arrangement services while the balance of the revenue was generated from the consulting and management services in relation to development and construction of cemetery. The funeral arrangement services and the consulting and management services recorded a segment gain of approximately RMB3.8 million and approximately RMB0.4 million for the year under review.

Human Resources

Shanghai FSY Consulting Group had 74 employees as at 31 December 2009 and the total staff costs, including directors' and supervisors' remuneration, for the year amounted to approximately RMB2.9 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Consulting Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

For the nine months ended 30 September 2010

Results

For the nine months ended 30 September 2010, Shanghai FSY Consulting Group recorded a revenue of approximately RMB13.1 million, representing an increase of approximately 19.1% when compared with that of the last corresponding period. The increase in revenue was mainly attributable to the increase in revenue from the funeral arrangement service of approximately 26.2% as a result of the increase in the number of customers. Given the increases in salaries, commission paid and maintenance expenses, the selling expenses for the nine months ended 30 September 2010 increased by approximately 23.8%, as compared to the last corresponding period, to approximately RMB2.6 million. The administrative expenses for the nine months ended 30 September 2010 amounted to approximately RMB2.1 million, representing a drop of approximately 32.3%. The decrease in administrative expenses was mainly attributable to the decrease in written off of other receivables of RMB1.5 million as compared to previous the corresponding period. As such, the profit for the nine months ended 30 September 2010 attributable to the owners of Shanghai FSY Consulting increased by 325%, as compared to the last corresponding period, to approximately RMB1.7 million.

Business Review

For the nine months ended 30 September 2010, Shanghai FSY Consulting Group was principally engaged in the provision of consulting and management services in relation to development and construction of cemetery and funeral arrangement services in the PRC by operating one funeral parlor in Shapingbei, Chongqing.

Capital Structure, Liquidity and Financial Resources

Shanghai FSY Consulting Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. Shanghai FSY Consulting Group relied principally on its internal resources to finance its business.

For the nine months ended 30 September 2010, the cash and cash equivalents decreased by approximately RMB6.6 million to approximately RMB4.8 million as at 30 September 2010. The decrease in cash and cash equivalents was mainly attributable to net cash used in operating activities and cash outflow for purchase of property, plant and equipment, which amounted to approximately RMB5.1 million and RMB1.5 million respectively. Shanghai FSY Consulting Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets, was approximately 0.37 as at 30 September 2010.

All expenditures of Shanghai FSY Consulting Group were denominated in RMB. Shanghai FSY Consulting Group had no significant foreign exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 September 2010, Shanghai FSY Consulting Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

Shanghai FSY Consulting Group had not acquired or disposed of any subsidiary or affiliated company during the period under review.

As at 30 September 2010, Shanghai FSY Consulting Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the nine months ended 30 September 2010, approximately 83.8% of Shanghai FSY consulting Group's revenue was generated from the funeral arrangement services while the balance of the revenue was generated from the consulting and management services in relation to development and construction of cemetery. The funeral arrangement services recorded a segment gain of approximately RMB4.0 million for the period under review while the consulting and management services recorded a segment loss of approximately RMB0.7 million for the period under review.

Human Resources

Shanghai FSY Consulting Group had 69 employees as at 30 September 2010 and the total staff costs, including directors' and supervisors' remuneration, for the period amounted to approximately RMB2.2 million.

Salaries of employees were maintained at a competitive level and Shanghai FSY Consulting Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, housing and other allowances and benefits in kind and defined contribution pension fund.

FOR THE YEAR ENDED 31 MARCH 2008

Results

For the year ended 31 March 2008, the Group recorded a turnover of approximately HK$2,867.6 million, representing an increase of approximately 75.6% when compared with that of the previous year. The Group's net loss attributable to the equity holders of the Company for the year ended 31 March 2008 was approximately HK$25.2 million, representing a decrease of approximately 65.6% as compared to last year.

Business Review

As at 31 March 2008, over 3,500 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Group had achieved a dominant market share of approximately 24% in the Shanghai mobile prepayment market and also expanded its business to the operation of e-payment cards and Health Debit Cards to facilitate the procurement of an array of health and wellness-related consumption in Shanghai. In addition, the Group allied with hospitals and insurance companies to provide emergency medical assistance services to over 1.5 million prepaid members in the PRC.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group financed its business primarily with internally generated capital and external borrowings.

As at 31 March 2008, the total borrowings of the Group amounted to approximately HK$152.8 million, which comprised convertible notes of approximately HK$62.2 million and redeemable convertible cumulative preference shares of approximately HK$90.6 million. The convertible notes included (i) a convertible note which carries interest at 3% per annum, payable semi-annually in arrears, and matures on 18 May 2009; and (ii) a convertible note which carries interest at 2% per annum, payable semi-annually in arrears, and matures on 6 August 2010. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in HK$ and US$.

The cash and cash equivalents of the Group was approximately HK$59.6 million as at 31 March 2008. The gearing ratio of the Group, which is calculated as the ratio of total liabilities to total assets, was approximately 1.23 as at 31 March 2008.

Since the Group's borrowings, income and expenditures were primarily denominated in HK$, US$ and RMB, the exposure to foreign exchange rate fluctuations was considered to be minimal. The Group did not use any financial instrument for hedging purposes.

As at 31 March 2008, the Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

In January 2008, the Group disposed of its entire equity interest in Power Ability Limited and its subsidiary to an independent third party at a cash consideration of US$2 million.

Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2008.

As at 31 March 2008, the Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 March 2008, approximately 99.6% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the production and trading of biotechnology products and the procurement of healthcare services. The e-commerce distribution of mobile pre-charge recorded a segment gain of approximately HK$6.9 million while the production and trading of biotechnology products and procurement of healthcare services recorded a segment loss of approximately HK$4.5 million and HK$7.7 million respectively.

Human Resources

The total number of employees of the Group was 130 as at 31 March 2008 and the total staff cost, including directors' emoluments for the year ended 31 March 2008 was approximately HK$16.9 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

FOR THE YEAR ENDED 31 MARCH 2009

Results

For the year ended 31 March 2009, the Group recorded a turnover of approximately HK$2,870.7 million, representing an increase of approximately 0.11% as compared to the previous year. The Group's net profit attributable to the equity holders of the Company for the year ended 31 March 2009 was approximately HK$18.8 million while a net loss attributable to the equity holders of the Company of approximately HK$25.2 million was recorded for the year ended 31 March 2008.

Business Review

As at 31 March 2009, over 6,500 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Group continued to maintain a dominant market share of approximately 24% in the Shanghai mobile prepayment market.

During the year under review, the Company was in default on redeeming a convertible bond with an outstanding principal amount of HK$20 million as at 31 March 2009. The Company was seeking fund arising opportunities to resolve the insolvency problem of the Company and no solutions had been arrived as at 31 March 2009.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group financed its business primarily with internally generated capital and external borrowings.

As at 31 March 2009, the total borrowings of the Group amounted to approximately HK$154.2 million, which comprised convertible notes of approximately HK$53.3 million and redeemable convertible cumulative preference shares of approximately HK$100.9 million. The convertible notes included (i) a convertible note which carries interest at 3% per annum, payable semi-annually in arrears, and matures on 18 May 2009; and (ii) a convertible note which carries interest at 2% per annum, payable semi-annually in arrears, and matures on 1 June 2011. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in HK$ and US$.

The cash and cash equivalents of the Group was approximately HK$156.4 million as at 31 March 2009, of which approximately HK$100.0 million was recorded under Harvest Network Limited, a then wholly-owned subsidiary of the Company, and the usage was restricted for the application as general working capital and other purpose of Harvest Network Limited only. The gearing ratio of the Group, which is calculated as the ratio of total liabilities to total assets, was approximately 0.80 as at 31 March 2009.

Since the Group's borrowings, income and expenditures were primarily denominated in HK$, US$ and RMB, the exposure to foreign exchange rate fluctuations was considered to be minimal. The Group did not use any financial instrument for hedging purposes.

As at 31 March 2009, the Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

In May 2008, the Group completed its acquisition on the remaining 30% equity interest in Shanghai Harvest Network Technology Co. Limited and its subsidiary at a total consideration of HK$41.5 million, of which HK$21.5 million was satisfied in cash and HK$20.0 million was satisfied by the issue of convertible notes. Moreover, the Group acquired an additional 10% equity interest in Shanghai Kejin Information Technology Company Limited at a cash consideration of RMB4.0 million in 20 October 2008. In June 2008, the Group disposed of its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB0.3 million. On 2 September 2008, Harvest Network Limited, a subsidiary of the Company, entered into a subscription agreement with Dr. Li Zhong Yuan, being a Director and two independent third parties, pursuant to which Harvest Network Limited agreed to issue an aggregate of 23,000,000 convertible preference shares and 4,600,000 warrants to the abovementioned subscribers at a total consideration of US$23.23 million. Furthermore, the Company has agreed to sell, and Harvest Network Limited has agreed to redeem, 3,000,000 shares at a cash consideration of US$1 per share. Such transactions resulted in a material dilution of the Group's equity interest in Harvest Network Limited and gave rise to a deemed disposal under the Listing Rules.

Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2009.

As at 31 March 2009, the Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 March 2009, approximately 99.6% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the trading of medical devices and consumables and the procurement of healthcare services. The e-commerce distribution of mobile pre-charge recorded a segment gain of approximately HK$2.5 million while the trading of medical devices and consumables and procurement of healthcare services recorded a segment loss of approximately HK$1.4 million and HK$1.6 million respectively.

Human Resources

The total number of employees of the Group was 128 as at 31 March 2009 and the total staff cost, including directors' emoluments for the year ended 31 March 2009 was approximately HK$12.5 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

FOR THE YEAR ENDED 31 MARCH 2010

Results

For the year ended 31 March 2010, the Group recorded a turnover of approximately HK$2,776.4 million, representing a decrease of approximately 3.28% as compared to last year. The Group's net loss attributable to the owners of the Company for the year ended 31 March 2010 was approximately HK$89.7 million while a net profit attributable to the owners of the Company of approximately HK$18.8 million (restated) was recorded in the previous year.

Business Review

As at 31 March 2010, almost 8,000 proprietary e-charge POS systems were placed in the major convenience store chains and other retail spots in Shanghai. The Group continued to maintain a dominant market share in the Shanghai mobile prepayment market. During the year under review, the Group expanded its mobile prepayment business to Shandong, the second largest provincial mobile market in the PRC. Furthermore, the IT platform has been upgraded to connect with China UnionPay, which enables the payment of credit card bills through the POS payment terminals.

During the year under review, the Company was in default on redeeming two convertible notes with outstanding principal amounts of approximately US$5.5 million and HK$11 million as at 31 March 2010 respectively. As a result, the Preference Shares with outstanding principal amount of US$15 million have also become redeemable on demand. The Company has requested a standstill with the holders of the convertible notes and the major holder(s) of one of the convertible notes have consented to conditionally extend the maturity for a period of three years. The Company was seeking fund arising and/or investment opportunities to resolve the insolvency problem of the Company.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group financed its business primarily with internally generated capital and external borrowings.

As at 31 March 2010, the total borrowings of the Group amounted to approximately HK$263.2 million, which comprised secured bank loans of approximately HK$34.2 million, convertible notes of approximately HK$52.2 million and redeemable convertible cumulative preference shares of approximately HK$176.8 million. The secured bank loans were secured by term deposit and bear interest at an annual rate of 4.617%. The convertible notes included (i) a convertible note which carries interest at 3% per annum, payable semi-annually in arrears, and matures on 18 May 2009 (as the Company was unable to redeem such convertible note, its major holder consented to conditionally extend the maturity for a period of three years if certain conditions requested by the major holder can be fulfilled by the Group); and (ii) a convertible note which carries interest at 2% per annum, payable semi-annually in arrears, and matures on 1 June 2011. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in RMB, HK$ and US$.

The cash and cash equivalents of the Group was approximately HK$174.1 million as at 31 March 2010, of which approximately HK$153.9 million was recorded under Harvest Network Limited, a then wholly-owned subsidiary of the Company, and the usage was restricted for the application as general working capital and other purpose of Harvest Network Limited only. The gearing ratio of the Group, which is calculated as the ratio of total liabilities to total assets, was approximately 1.07 as at 31 March 2010.

Since the Group's borrowings, income and expenditures were primarily denominated in HK$, US$ and RMB, the exposure to foreign exchange rate fluctuations was considered to be minimal. The Group did not use any financial instrument for hedging purposes.

As at 31 March 2010, the Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

On 16 July 2009, Mr. Phillip J Riese, an independent third party, subscribed 500 convertible preference shares from Harvest Network Limited, a subsidiary of the Company, at a consideration of US$50,000. Such transaction resulted in a dilution of the Group's equity interest in Harvest Network Limited and gave rise to a deemed disposal under the Listing Rules. On 11 December 2009, the Group disposed of its entire equity interest in Artel Limited and its subsidiary, Beijing Joyzone Network Technologic Co., Ltd., to Dr. Li Zhong Yuan, a Director, at a total consideration of HK$6. In addition, the Group acquired the entire equity interests in Nanjing Wangchi Technology Company Limited from an independent third party for a cash consideration of RMB3.0 million on 20 December 2009.

Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 March 2010.

As at 31 March 2010, the Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the year ended 31 March 2010, approximately 99.3% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the trading of medical devices and consumables and the procurement of healthcare services. The e-commerce distribution of mobile pre-charge, the trading of medical devices and consumables and procurement of healthcare services recorded a segment loss of approximately HK$10.6 million, HK$2.3 million and HK$2.9 million respectively.

Human Resources

The total number of employees of the Group was 160 as at 31 March 2010 and the total staff cost, including directors' emoluments, for the year ended 31 March 2010 was approximately HK$15.9 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Results

For the six months ended 30 September 2010, the Group recorded a turnover of approximately HK$1,442.2 million, representing an increase of approximately 3.9% as compared to the last corresponding period. The Group's net loss attributable to the owners of the Company for the six months ended 30 September 2010 was approximately HK$85.9 million, representing an increase of approximately 292.2% as compared to the last corresponding period. The increase in loss for the six months ended 30 September 2010 was mainly attributable to the increase in fair value loss on derivative component of redeemable convertible cumulative preference shares and finance costs of approximately HK$21.7 million and HK$39.1 million respectively.

Business Review

During the period under review, the Group's business operation continued to be principally engaged in the provision of consumer oriented services that enable the procurement of better access, better communication and better connectivity in China.

China is undergoing mega growth of underlying consumption demands arising from China's on-going grand-scale urbanization, rising per capita income, increasing mobility and travel flows, and ageing demographics. The Group's operation continues to embrace such mega trend in China.

The Company has been in default on repaying a convertible bond of outstanding principal of about US$5.5 million as of 30 September 2010, and due to cross default, the redeemable convertible preference shares of outstanding principal of US$15 million has also become redeemable on demand. Having experimented with various ways and means to find a solution to the Company's solvency problem, the Directors considered that a solution would necessarily require injection of substantial external resources, and thus the Group entered into the Agreement with the Procurer and the Guarantor to acquire the Acquired Assets for a total consideration of HK$3,360 million, which shall be payable as (a) HK$44 million in cash; and (b) HK$3,316 million by the issue of the Convertible Notes with an Initial Conversion Price of HK$0.40 per Share.

Given the growing trend of unprecedented urbanization, aging population and escalating mortality and the continuously rapid economic growth in China, the Directors believe that the demand for high quality funeral services in China is fast increasing and the growth potential of funeral industry in China is immense. Furthermore, in view of the industry leadership status, the strong financial performance, the high growth potential and prospects of the Acquired Assets, the Directors believe that the Acquisition shall significantly broaden the income source of the Group and provide a solution to the Group's insolvency problem and substantially improve the financial position of the Group.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group financed its business primarily with internally generated capital and external borrowings.

As at 30 September 2010, the total borrowings of the Group amounted to approximately HK$270.0 million, which comprised convertible notes of approximately HK$49.6 million and redeemable convertible cumulative preference shares of approximately HK$220.4 million. The convertible notes included (i) a convertible note which carries interest at 3% per annum, payable semi-annually in arrears, and matures on 18 May 2009 (as the Company was unable to redeem such convertible note, the Company reached an understanding with its major holder to conditionally postpone the payment for three years if certain conditions requested by the major holder can be fulfilled by the Group); (ii) a convertible note which carries interest at 2% per annum, payable semi-annually in arrears, and matures on 1 June 2011. The redeemable convertible cumulative preference shares carry dividend at 2% per annum, subject to adjustment to 5% on certain special events, payable semi-annually in arrears, and mature on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the redeemable convertible cumulative preference shares. The borrowings of the Group were denominated in RMB, HK$ and US$.

The cash and cash equivalents of the Group was approximately HK$170.0 million as at 30 September 2010, of which approximately HK$90.2 million was recorded under Harvest Network Limited, a then wholly-owned subsidiary of the Company, and the usage was restricted for the application as general working capital and other purpose of Harvest Network Limited only. The gearing ratio of the Group, which is calculated as the ratio of total liabilities to total assets, was approximately 1.10 as at 30 September 2010.

Since the Group's borrowings, income and expenditures were primarily denominated in HK$, US$ and RMB, the exposure to foreign exchange rate fluctuations was considered to be minimal. The Group did not use any financial instrument for hedging purposes.

As at 30 September 2010, the Group did not have any contingent liability or charge on any of its assets.

Material Investments, Acquisitions or Disposals

On 19 August 2010, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with, among others, the Procurer and the Guarantors, being independent third parties, to acquire the Equity Interests and the Other Assets for a total consideration of HK$3,360 million. The Acquisition has not been completed yet.

Save as disclosed above, the Group had no significant investment held and there was no material acquisition and disposal of subsidiaries and associated companies during the six months ended 30 September 2010.

As at 30 September 2010, the Group did not have any material capital expenditure commitment or future plan for material investments or capital assets.

Segmental Analysis

For the six months ended 30 September 2010, approximately 99.1% of the Group's turnover was generated from the e-commerce distribution of mobile pre-charge while the balance of the turnover was generated from the trading of medical devices and consumables and the procurement of healthcare services. The e-commerce distribution of mobile pre-charge and the trading of medical devices and consumables recorded a segment loss of approximately HK$2.5 million and HK$0.3 million respectively while the procurement of healthcare services recorded a segment gain of approximately HK$44,000.

During the period under review, the Group remained as the number 1 distributor of mobile prepaid cards in Shanghai with POS terminals onto distribution outlets (convenience stores and others) in Shanghai. The Group's B-to-C consumer services operation has been implementing a strategic growth initiative for expansion of geography by establishing its subsidiary in Shandong, the 2nd largest province in terms of GDP in China. The Group has also continued to upgrade its IT platform to connect with China UnionPay so that households can process various payments including credit card bills, etc. via the Group's POS payment terminals in convenience stores and pharmacies. Such initiative is expected to generate significant long-term value to the Group, although the Group may be suffered from the medium-term adverse financial impacts arising from such development.

Human Resources

The total number of employees of the Group was 175 as at 30 September 2010 and the total staff cost, including directors' emoluments for the six months ended 30 September 2010 was approximately HK$5.7 million.

The Group continued to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Remuneration packages comprised salaries, contributions to the Mandatory Provident Fund Schemes and the PRC government pension schemes based on applicable rates of monthly salary in accordance with government regulations in the PRC, discretionary bonus, which was linked to the performance of the Group and the individual, and share option scheme.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The authorized and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion, the Capital Increase becoming effective and full conversion of the Convertible Notes at its initial conversion price of HK$0.40, are set out as follows:

(i) As at the Latest Practicable Date

		HK$'000
Authorized share capital:		
5,000,000,000	ordinary shares of HK$0.1 each	500,000
15,000	redeemable convertible cumulative preference shares of US$0.01 each	1
		500,001
Issued and fully paid or credited as fully paid:		
409,538,954	ordinary shares of HK$0.1 each	40,954
15,000	redeemable convertible cumulative preference shares of US$0.01 each	1
		40,955

(ii) Immediately after the Completion, the Capital Increase becoming effective and full conversion of the Convertible Notes at its initial conversion price of HK$0.40

		HK$'000
Authorized share capital:		
100,000,000,000	ordinary shares of HK$0.1 each	10,000,000
15,000	redeemable convertible cumulative preference shares of US$0.01 each	1
		10,000,001
Issued and fully paid or credited as fully paid:		
409,538,954	existing Shares	40,954
8,290,000,000	maximum number of Conversion Shares to be issued upon full conversion of the Convertible Notes	829,000
8,699,538,954		869,954
15,000	redeemable convertible cumulative preference shares of US$0.01 each	1
		869,955

A total of 93,720,711 Shares, 364,687,500 Shares and 19,961,000 Shares will be issued upon full conversion of the Existing Convertible Notes, the Preference Shares and the outstanding share options respectively.

3. INTERESTS OF DIRECTORS

(a) Interest in the shares, underlying shares and debentures of the Company and its associated companies

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive	Company/ associated corporation	Capacity	Interests in shares	Interests in underlying shares pursuant to equity derivatives	Total interests in shares and underlying shares	Approximate percentage of shares and underlying shares held to existing total issued shares
Dr. Li Zhong Yuan	The Company	Corporation	11,147,000 (Note 1)	–	11,147,000	2.72%
		Personal	13,296,000	6,244,000 (Note 3)	19,540,000	4.77%
	Harvest Network Ltd.	Personal	–	3,600,000 (Note 4)	3,600,000	20.57%
Mr. Zhou Bao Yi	The Company	Personal	1,002,000	–	1,002,000	0.24%
Mr. Martin Treffer	The Company	Corporation	1,295,000 (Note2)	–	1,295,000	0.32%
		Personal	250,000	1,902,000 (Note 3)	2,152,000	0.53%
Mr. Mu Xiangming	The Company	Personal	261,000	210,000 (Note 3)	471,000	0.12%
Dr. Yan Shi Yun	The Company	Personal	261,000	–	261,000	0.06%
Mr. Jiang Bo	The Company	Personal	261,000	–	261,000	0.06%

Notes:

(1) These Shares were held by Pacific Annex Capital Limited, which was wholly-owned by Dr. Li Zhong Yuan as at the Latest Practicable Date.

(2) These Shares were held by 2Trade Group Limited, which was beneficially owned as to 35% by Mr. Martin Treffer as at the Latest Practicable Date.

(3) The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the Directors by the Company.

(4) These represent the ordinary shares of Harvest Network Ltd. to be issued upon the exercise of the conversion right attaching to the unlisted convertible preference shares of Harvest Network Ltd. held by Dr. Li Zhong Yuan.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 March 2010, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or was proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) Interests in contracts

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.

(d) Interests in competing business

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors and their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(e) Directors' service contracts

As at the Latest Practicable Date, there was no existing or proposed service contract between the Directors and any member of the Company which are not expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the persons (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of substantial Shareholders	Capacity	Interests in Shares	Interests in underlying Shares pursuant to equity derivatives	Total interests in Shares and underlying Shares	Approximate percentage of Shares and underlying Shares held to existing total issued Shares
Dragonrise Capital Advisors Inc. *(Note 1)*	Beneficial owner	62,480,474	–	62,480,474	15.27%
Mr. Yeung Ning *(Note 1)*	Interests of controlled corporation	62,480,474	–	62,480,474	15.27%
Capital Foresight Limited *(Note 2)*	Beneficial owner	–	364,687,500	364,687,500	89.05%
Mr. Chen Li Bo *(Note 2)*	Interests of controlled corporation	–	364,687,500	364,687,500	89.05%
Mr. Yu Feng *(Note 2)*	Interests of controlled corporation	–	364,687,500	364,687,500	89.05%
ZhongXing Limited *(Note 3)*	Beneficial owner	8,595,000	62,480,474	71,075,474	17.35%
Mr. Ho Kin *(Note 3)*	Interests of controlled corporation	8,595,000	62,480,474	71,075,474	17.35%
Mascot Land Limited *(Note 4)*	Beneficial owner	–	8,290,000,000	8,290,000,000	2,024.23%
China Zhongfu *(Note 4)*	Interests of controlled corporation	–	8,290,000,000	8,290,000,000	2,024.23%
Anhui Anhe *(Note 4)*	Interests of controlled corporation	–	8,290,000,000	8,290,000,000	2,024.23%

Notes:

(1) As at the Latest Practicable Date, Dragonrise Capital Advisors Inc. was beneficially wholly-owned by Mr. Yeung Ning. Therefore, Mr. Yeung Ning was deemed to be interested in the Shares held by Dragonrise Capital Advisors Inc..

(2) The equity derivatives represent Preference Shares which entitle the holder thereof to convert for 364,687,500 fully paid Shares at an adjusted conversion price of HK$0.32 per Share (subject to adjustments). As at the Latest Practicable Date, Capital Foresight Limited was beneficially owned as to 36% by Mr. Chen Li Bo and 36% by Mr. Yu Feng. Therefore, each of Mr. Chen Li Bo and Mr. Yu Feng was deemed to be interested in the underlying Shares held by Capital Foresight Limited.

(3) The equity derivatives represent the convertible notes of the Company which entitle the holder thereof to convert for 62,480,474 fully paid Shares at an initial conversion price of HK$0.3201 per Share (subject to adjustments). As at the Latest Practicable Date, ZhongXing Limited was wholly-owned by Mr. Ho Kin. Therefore, Mr. Ho Kin was deemed to be interested in the Shares and the underlying Shares held by ZhongXing Limited.

(4) The underlying Shares represent the Conversion Shares. As at the Latest Practicable Date, Mascot Land Limited was owned as to about 35.5% by China Zhongfu, about 35.5% by Anhui Anhe, and 29.0% by Tide Rejoice Ltd. Therefore, China Zhongfu and Anhui Anhe were deemed to be interested in the underlying Shares held by Mascot Land Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance, known to the Directors, pending or threatened against any member of the Enlarged Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by any member of the Enlarged Group within two years immediately preceding up to and including the Latest Practicable Date:

(a) a subscription agreement dated 16 July 2009 entered into between Harvest Network Limited, a subsidiary of the Company, and Mr. Phillip J Riese, an independent third party, pursuant to which Harvest Network Limited agreed to issue 500 convertible preference shares to Mr. Phillip J Riese at a consideration of US$50,000;

(b) an instrument of transfer and bought and sold note dated 11 December 2009 entered into between CHC Investment Holdings Limited, a subsidiary of the Company, and Dr. Li Zhong Yuan, a Director, pursuant to which CHC Investment Holdings Limited agreed to sell, and Dr. Li Zhong Yuan agreed to acquire, the entire equity interest in Artel Limited at a total consideration of HK$6;

(c) an assignment agreement dated 17 December 2009 entered into between China Healthcare Services Investment Limited, a company beneficially owned as to 89% by the Company, and Newrank Limited, pursuant to which China Healthcare Services Investment Limited agreed to assign a loan of RMB17.5 million owed by its 70%-owned subsidiary, Beijing Universal Medical Assistance Co. Ltd., to Newrank Limited for a total cash consideration of RMB17.5 million;

(d) a sale and purchase agreement dated 23 November 2009 entered into between, among others, Shanghai De Yi Network Technology Company Limited (上海德頤網路技術有限公司), a subsidiary of the Company, and Mr. Xu Kun Lin (徐坤林先生) and Mr. Liu Lian Xiang (劉連湘先生), being independent third parties, pursuant to which Shanghai De Yi Network Technology Company Limited agreed to acquire, and Mr. Xu Kun Lin and Mr. Liu Lian Xiang agreed to sell, the entire equity interest in Nanjing Wangchi Technology Company Limited at a cash consideration of RMB3.0 million (the "Nanjing Wangchi Acquisition");

(e) a supplemental agreement dated 31 December 2009 entered into between ,among others, Shanghai De Yi Network Technology Company Limited, Mr. Xu Kun Lin and Mr. Liu Lian Xiang regarding the Nanjing Wangchi Acquisition, pursuant to which the parties to the agreement mutually agreed to extend the payment date of the remaining balance of the consideration of RMB2.1 million to a date not later than 30 June 2010;

(f) a sale and purchase agreement dated 24 March 2010 entered into between Novogain Holdings Limited, a wholly-owned subsidiary of the Company, GeneHarbor Holdings Limited, the Company, Dr. Wang Jun, South Sources Development Limited and Simplicio Universal Limited, pursuant to which GeneHarbor Holdings Limited agreed to sell, and Novogain Holdings Limited agreed to acquire, the entire equity interest in GeneHarbor Technologies Inc. at a consideration of US$73.0 million (the "GeneHarbor Acquisition");

(g) a supplemental agreement dated 29 March 2010 entered into between GeneHarbor Holdings Limited, the Company and Dr. Wang Jun to amend certain terms of the sale and purchase agreement dated 24 March 2010 regarding the GeneHarbor Acquisition. The GeneHarbor Acquisition was terminated on 14 July 2010;

(h) subscription agreements dated 5 April 2010 entered into between the Company and nine independent subscribers, pursuant to which the Company agreed to issue, and the subscribers agreed to subscribe for, the zero coupon subordinated convertible notes due 2011 in the aggregate principal amount of HK$15.0 million;

(i) subscription agreements dated 5 April 2010 entered into between the Company and ZhongXing Limited, Crown Impact Limited, Mr. Chen Jinsheng and Ms. Zhang Jianhua, pursuant to which the Company agreed to issue, and the subscribers agreed to subscribe for, the zero coupon subordinated convertible notes due 2011 in the aggregate principal amount of HK$50.0 million;

(j) the Agreement; and

(k) the supplemental agreements dated 29 December 2010 and 17 February 2011 entered into between the Purchaser, the Procurer and the Guarantors to amend certain terms of the Agreement.

As at the Latest Practicable Date, save as disclosed above, no material contract (not being contract entered into in the ordinary course of business) was entered into by any member of the Enlarged Group within two years immediately preceding up to and including the Latest Practicable Date.

7. EXPERT AND CONSENT

a) The following is the qualification of the experts who have given opinions, letters or advice which are contained in this circular:

All Bright Law Offices	A law firm in the PRC
Ascent Partners	Independent qualified professional valuer
Avista Valuation Advisory Limited	Independent qualified professional valuer
BDO	Certified Public Accountants
Hercules Capital Limited	A licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO
Shinewing	Certified Public Accountants

b) Each of All Bright Law Offices, Ascent Partners, Avista Valuation Advisory Limited, BDO, Hercules Capital Limited and Shinewing has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

c) As at the Latest Practicable Date, none of All Bright Law Offices, Ascent Partners, Avista Valuation Advisory Limited, BDO, Hercules Capital Limited and Shinewing had any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

d) As at the Latest Practicable Date, none of All Bright Law Offices, Ascent Partners, Avista Valuation Advisory Limited, BDO, Hercules Capital Limited and Shinewing had any interest, direct or indirect, in any asset which has been, since 31 March 2010, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or was proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. GENERAL

(a) The registered office and principal office of the Company in Hong Kong are situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit C, 19/F., Entertainment Building, 30 Queen's Road Central, Hong Kong respectively.

(b) The branch share registrar of the Company in Hong Kong is Tricor Tengis Limited, which is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Tsui Siu Hung Raymond. Mr. Tsui holds a bachelor degree in business administration in accounting. He is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of the Certified Public Accountants.

(d) This circular and the accompanying form of proxy are prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the principal place of business of the Company in Hong Kong, Unit C, 19/F., Entertainment Building, 30 Queen's Road Central, Hong Kong, up to and including the date of the SGM:

a) the memorandum of association and bye-laws of the Company;

b) the annual reports of the Company for each of the two years ended 31 March 2010;

c) the accountants' reports on (i) Shanghai FSY Group; (ii) Hefei Dashushan Group; (iii) Shandong FSY; and (iv) Shanghai FSY Consulting Group prepared by BDO for the nine months ended 30 September 2010 and each of the three years ended 31 December 2009, the text of which is set out in Appendix IIA to Appendix IID to this circular;

d) the report prepared by Shinewing on the unaudited pro forma financial statements of the Enlarged Group, the text of which is set out in Appendix III to this circular;

e) the report prepared by Ascent Partners on the valuation of the property interests of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

f) the report prepared by Ascent Partners on the valuation of the Acquired Assets, the text of which is set out in Appendix V to this circular;

g) the report prepared by Ascent Partners on the valuation of plant and equipment, cemetery assets and other intangible assets of the Acquired Assets referred to in Appendix III to this circular;

h) the report prepared by Avista Valuation Advisory Limited on the valuation of the derivative and liability components of the Preference Shares referred to in Appendix III to this circular;

i) the reports prepared by BDO and Hercules Capital Limited on the forecasts underlying the valuation on the Acquired Assets, the text of which are set out in Appendix VI to this circular;

j) the written consents referred to in the paragraph headed "Expert and Consent" in this Appendix; and

k) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix.

China HealthCare Holdings Limited
中國衛生控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

NOTICE IS HEREBY GIVEN that a special general meeting of China HealthCare Holdings Limited (the "Company") will be held at 10:00 a.m. on 10 March 2011 at 5/F., Building 88, 1199 North Qin Zhou Road, Caohejing Hi-Tech Park, Xuhui District, Shanghai, China for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

"**THAT**

1. (a) the sale and purchase agreement dated 19 August 2010 (as amended and supplemented by the supplemental agreements dated 29 December 2010 and 17 February 2011) (the "Agreement") (copies of which marked "A" have been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) entered into between Wingames Investments Limited (the "Purchaser"), Mascot Land Limited (the "Procurer"), China Zhongfu Industry Co., Ltd., Shanghai Zhongfu International Trading Co., Ltd., Anhui Anhe Investment Consulting Co., Ltd., Mr. Wang Ji Sheng and Mr. Ge Qian Song (collectively, the "Guarantors") and the Company in relation to the acquisition of (i) the entire registered capital of a limited liability company to be established under the laws of the PRC after the reorganization; (ii) the entire equity interest in Shanghai Fu Shou Yuan Consulting & Management Co., Ltd.; (iii) the 10% equity interest in Chongqing Anle Services Co., Ltd.; (iv) the 80% equity interest in Chongqing Anle Funeral Service Co. Ltd.; and (v) the 10% equity interest in Shandong Fu Shou Yuan Development Co., Ltd. by the Purchaser at a total consideration of HK$3,360 million (the "Acquisition"), details of which are set out in the circular of the Company dated 23 February 2011 (the "Circular") to the shareholders, and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

   (b) the directors of the Company be and are hereby authorized to issue the convertible notes of a principal amount of RMB2,858 million (equivalent to HK$3,316 million) (the "Convertible Notes"), as part of the consideration of the Acquisition pursuant to the Agreement and to allot and issue the new shares upon the exercise of the conversion rights attaching to the Convertible Notes and to do all such acts and things and execute such further documents and take all steps which, in their opinion may be necessary, desirable, or expedient to implement and give effect to the terms of, and all transactions contemplated under, the Agreement for and on behalf of the Company and to approve any change and amendment thereto as they may consider necessary, desirable or expedient; and

* *For identification purpose only*

2. the authorized share capital of the Company be and is hereby increased from HK$500,000,000 to HK$10,000,000,000 by the creation of additional 95,000,000,000 shares of HK$0.1 each in the share capital of the Company."

By order of the Board
China HealthCare Holdings Limited
Zhou Bao Yi
Executive Director

Hong Kong, 23 February 2011

Principal Place of Business in Hong Kong:
Unit C, 19/F., Entertainment Building
30 Queen's Road Central, Hong Kong.

Notes:

1. A member entitled to attend and vote at the special general meeting is entitled to appoint one or more proxies to attend and vote instead of him/her in the special general meeting. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the special general meeting or any adjourned meeting thereof should he/she so wishes.

3. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

4. As at the date of this notice, the executive directors of the Company were Dr. Li Zhong Yuan and Mr. Zhou Bao Yi; the non-executive director of the Company was Mr. Martin Treffer; and the independent non-executive directors of the Company were Mr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun.