

**【Translation】**

## **Lungyen Life Service Corp.**

### **2020 Annual General Meeting Minutes**

Date and Time: 10:30 a.m., Friday, May 29, 2020

Venue: No.111, Dongshi St., Xizhi Dist., New Taipei City, Taiwan  
(the Auditorium of Lungyen's Headquarters)

Number of Attending Shares: Attendance and Proxy total numbered 336,329,974 shares, including 84,174,813 shares attended by electronic means of voting rights, representing 80.06 % of the company's outstanding shares of 420,084,199 shares.

Attending Directors: Liu, Wei-Lung and  
the representative of ORIX Asia Capital, Chao, Tristain

Attending Independent Directors: Yeh, Su, Wang-Huai, Wang, Chun-Chung

Chairman: Chairman Liu, Wei-Lung

Record: Hsu, Kai-Pei

1. Commencement of the Meeting:  
Chairman Liu declared the meeting open as the total number of attending shares had reached statutory number.
2. Message from the Chairman: Omitted here.
3. Matters to Report:
  - (1) Report on the apportionment of Directors' and employees' compensation of the year 2019. (Please refer to the Handbook for the 2020 Annual Meeting of Shareholders)
  - (2) Report on the 2019 operation results. (Please refer to Appendix)
  - (3) Report on the 2019 business report and financial statements audited by the Audit Committee. (Please refer to Appendix)
  - (4) Report on the revision of the Company's "Rules and Procedure for Board of Directors Meetings". (Please refer to Appendix)

#### 4. Matters for Ratification

Case 1 (Proposed by the Board of Directors)

Summary: Ratification for the 2019 business report and financial statements is proposed for approval

Remarks: 1. For the Company's 2019 business report and financial report (including balance sheet, comprehensive income statement, changes in equity and cash flow statement), please refer to Appendix.

2. Above mentioned financial reports have been audited by KPMG's accountants, Mr. Zeng, Guo-Yang and Ms. Lai, Li-Zhen. (The complete version of the

Company's financial report can be downloaded from MOPS website:  
<http://newmops.twse.com.tw>)

Resolutions: Total attending shares at voting: 336,329,974 shares (including 84,174,813 shares via electronic voting)

Voting Results	% of Total Attending Shares
For : 292,261,339 shares (including 40,585,588 shares via electronic voting)	86.89%
Against : 69,981 shares (including 69,981 shares via electronic voting)	0.02%
Invalid : 0 shares (including 0 shares via electronic voting)	0.00%
Abstain and not voted : 43,998,654 shares (including 43,519,244 shares via electronic voting)	13.08%

Resolved, that the Company's 2019 business report and financial report be and hereby were accepted as submitted.

Case 2

(Proposed by the Board of Directors)

Summary: Ratification for the 2019 profit apportionment is proposed for approval

- Remarks:
1. The Company's net income for 2019 was NT\$2,302,870,983. After setting aside the legal reserve, special reserve and other equity adjustments, with addition of beginning retained earnings, the unappropriated retained earnings as of December 31, 2019 were NT\$9,661,210,584. Considering the Company's future investment plan, it is proposed to distribute cash dividends of NT\$ 1,260,252,597 from current profit available for appropriation, which equals NT\$3.0 per share. For the Company's profit distribution table, please refer to Appendix.
  2. Cash dividend is distributed prorated with the amount rounded up to the dollar. Also, it is adjusted by a decimal point from large to small and the account number from front to back in order to match up with the total cash dividends distributed.
  3. If the outstanding stock shares are affected and that have caused changes to shareholder's dividend ratio due to the Company's repurchasing treasury shares before the Ex-dividend date, the Chairman is authorized in the shareholders' meeting to deal with the correction needed.
  4. For the distribution of cash dividend to shareholders, the Chairman is authorized to schedule the ex-dividend date as soon as it is resolved at the shareholders' meeting.
  5. Hereby apply for approval.

Supplementary notes by the Chief Financial Officer:

The distribution order of the cash dividends of \$1,260,252,597 is as follows:

1. The net increase from the retroactive adjustment of reserve surplus at the beginning of year 2018 was \$1,104,855,351.

2. The net profit for 2019 was \$155,397,246.

Shareholder Shareholder No. 45259 asked whether the investment income from disposing of  
Spoken: Changhua Bank's stocks in 2019 was included in the dividend distribution.  
The question raised by the above shareholder was replied and clarified by the Chief  
Financial Officer.

Resolutions: Total attending shares at voting: 336,329,974 shares (including 84,174,813 shares via  
electronic voting)

Voting Results	% of Total Attending Shares
For : 292,276,339 shares (including 40,600,588 shares via electronic voting)	86.90%
Against : 78,981 shares (including 78,981 shares via electronic voting)	0.02%
Invalid : 0share (including 0 share via electronic voting)	0.00%
Abstain and not voted : 43,974,654 shares (including 43,495,244 shares via electronic voting)	13.07%

Resolved, that the above proposal be and hereby were accepted as submitted.

5. Extempore motions:

Questions raised by shareholders:

Shareholder No. 45259 raised inquiries about the plan for listing on the TWSE and the status of investment and development in the mainland China. Above inquiries have been explained and answered by the Chairman and the Chief Financial Officer.

6. Adjournment (11:00 am, May 29, 2020)

# **APPENDIX**

## 2019 Business Report

The overall global economy continued to weaken in the first half of 2019. The main reason was still the dispute between China and the United States, which allowed manufacturers to retain fixed capital investment. Fortunately, consumption still supported the global economy to a certain extent. The central banks of major countries have adopted more proactive monetary policies, which has gradually brought the economy to the bottom. In the second half of the year, with the initial agreement of Sino-US trade policy was gradually reached, and the OECD leading indicators continued to rise in the last four months of 2019, it shows that the global economy was in the initial stage of recovery after deceleration, but it was still unstable.

Looking forward to Taiwan's economy in 2020, the deterioration of the COVID-19 during the Chinese New Year holidays has indeed suppressed the situation of economic recovery. Under the influence of various regulatory limitations such as the official closure of the city and delayed construction, the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, which originally intended to increase the forecast of Taiwan's economic growth rate of 2020, not only decreased the original forecast by 0.35 percentage, from 2.72% of November, 2019 to 2.37%, also changed the view that this year's growth rate would be better than last year. Although the impact of COVID-19 still continues, various agencies believe that this COVID-19 should not cause a fatal impact to Taiwan's economic growth rate this year. Under the original economic growth trend of more than 2%, the growth affected by the COVID-19 has only slowed down, but not to decline.

Facing the uncertainty of economic and political situation, the Company's management team and all employees still adhere to the spirit of the Company, focusing on the improvement of product and service quality, deepening brand value, and continuously pursuing steady growth. Business performance for the year 2019 and the business plan for 2020 are hereby presented to the Company's shareholders as of follows:

### 1. Operating results for 2019

The Company's 2019 operating results maintained stable in Taiwan, and its projects in China continued to progress. In addition to the core business of funeral service and products, part of investment properties and financial assets were disposed of in 2019, and the disposal income will be invested in the development of the core businesses to strengthen the hardware and software facilities, improve the differentiation of service quality, and continue to pursue growth and industrial innovation. Disposal income also drove the profit growth. The net profit attributable to the parent company was NT\$2.30 billion, an increase of 5.6% over the previous year. The net profit after tax was 52.0%, which was 5.8 percentage points higher than the previous year. Earnings per share reached NT\$5.48, reaching a new high in the past five years.

As of December 31, 2019, the total consolidated asset was NT\$65.11 billion, increased by 2.9% compared to the previous year; the total liability was NT\$45.17 billion and debt ratio was 69.4%. It

includes contract liabilities of NT\$39.0 billion. These contract liabilities are the nature of advance receipts and booked as unrealized income, and will be recognized as operating income once the funeral service is delivered or the permanent right of columbarium and cemetery is transferred to the client upon completion. The debt ratio was 23.6% if the company deducted the contract liabilities and relative asset amounts.

## 2. Summary of business plan for 2020

### (1) Operations guidelines:

- i. Carry out business plan to achieve business target
- ii. Optimize capital allocation to improve financial performance
- iii. Strengthen risk management to solidify business fundamentals
- iv. Improve operations management to enhance corporate value
- v. Fulfill corporate social responsibilities to polish corporate image

### (2) Executive summary:

1. Carry out business plan to achieve business target

Utilizing the advantages of high-standard facilities in the North, Central and South Cemetery, combined with the unified good quality of the funeral service and cemetery team throughout Taiwan, we integrate customer needs, channels and product diversification, and strengthen sales momentum. Our primary goal is to increase market share. At the same time, we will replicate the successful experience of Taiwan and actively explore overseas markets to become the best funeral service provider in Greater China.

2. Optimize capital allocation to improve financial performance

Closely watch the capital market for appropriate opportunities to plan for suitable funding so as to elevate financial performance. Provide sound operational management procedures in accordance with the latest regulations so as to strengthen operational efficiency. And continuously review and adjust asset allocation, activate asset effectiveness to support the growth of the core business and increase investment income, and continue to create group's profits.

3. Strengthen risk management to solidify business fundamentals

Strengthen the functions of internal audit and internal control, substantiate corporate governance, review and modify the risk management regulations and update the internal control operating procedures in a timely manner in order to enhance risk management capability.

4. Improve operational management to enhance corporate value

Promote human resources exchanges and talents incubation plan within the Group to develop the cross-industry management talent needed, enhance manpower capital, and strengthen competitiveness. Utilize information technology for integrating workflow and service

innovation to ensure competitive advantage. Exercise the bargaining power of procurement, effectively reduce operating costs and maintain the Group's long-term stability of profit growth.

5. Fulfill corporate social responsibility and optimize corporate image

Communicate business philosophy through the combination of core business advantages and social care issues, to exercise the synergy of business operations, to continuously feedback to the society, to serve the citizens, and to fulfill the satisfaction of customers, employees, shareholders and other stakeholders.

(3) Estimated production and sales in 2020 (including subsidiaries)

Unit: SET

Product Name	Targeted Sales Unit
Columbarium	4,340
Cemetery	258
Preneed Funeral	11,232
<b>Total</b>	<b>15,830</b>

### 3. The Company's development strategy

The society's perception of the life service industry and the concept of consumers are constantly changing. The demand for integration and diversified product planning is a certain trend. We are committed to the improvement of industrial quality, continues to reform the funeral industry and solidify the concept of pre-need funeral service contracts, through the diversification of sales methods and products, to achieve the goal of sustained growth.

Our 2020 development strategy will focus on the planning and design of the cemetery and columbarium in Taiwan and integrate the needs of the pre-need funeral service contract. With the combination of product sales, it is expected to bring integration to customers with one-stop service for funeral and burial across the country.

As Taiwan moves towards an aging society, and the problem of lower fertility rate becomes more serious (According to the World Fertility Review latest announcement of fertility rates in countries around the world, Taiwan is ranked as "the last" of the 200 countries in the world), the importance of being "prepared" for the last journey of life will become increasingly apparent. In addition to the life service business as the foundation, the Company will gradually expand its operation into related businesses in the life service industry with a steady spirit. On the other hand, in addition to firmly operate Taiwan's existing market, it will replicate Taiwan's successful experience to actively expand the mainland China market, ally local superior teams to implement the Wenzhou project and continue to develop other high-quality projects to achieve the goal of becoming the best funeral service provider in Greater China.

#### **4. Impact of external competitive environment, regulatory environment and the macro business environment**

Over the years, the Company has been committed to the reform of the funeral business, and to improve the overall industrial quality as a priority, to arouse the importance of consumer rights protection. The funeral business is being perfected under the relevant regulations by the domestic authorities, which will help improve the efficiency of industrial management, prevent unscrupulous operators from depriving consumers of their rights and interests, and further protect Lungyen's long-term philosophy of integrity management. The Company has been continuously committed to the implementation of corporate governance. It has been rated as the top 5% of OTC Trading companies for five consecutive years in corporate governance assessment. The Board of Directors of the Company has three functional committees, an Audit Committee, a Remuneration Committee, and a Corporate Governance and Nomination Committee, all of which are convened by independent directors. In order to improve the operation of the board of directors, and in accordance with the requirements of the competent authorities in advance, a dedicated corporate governance executive is set up to handle corporate governance related matters.

The function of the board of directors is not only to prevent fraud, but also to create benefits. The Company also listed the effectiveness evaluation of the board of directors as an annual target, and has completed the implementation in 2018 and 2019 and announced the evaluation results on the Company's website. We hope that the board of directors and various functional committees can play the four roles as leadership, supervision, partners, and mentors, and use international best practices as a benchmark to fully urge the management team to achieve the goal of equal excellence in governance and business performance.

Good corporate governance is the presentation of the value of an enterprise's intangible assets. And this asset value represents that the Company will continue to invest in the industry's innovation, provide customers with the highest specifications and the most intimate facilities and services, in an attempt to promote the life service industry to the world and become the world's leading brand in this industry.

The funeral business is a necessity for the people's livelihood; therefore, the sales performance is less affected by the economy. The aging population and the trend of declining birth rate are also the sales momentum of the funeral industry. In perspective, we will continue to uphold the business philosophy of professionalism, integrity and compassion to strengthen operating performance, solid operating foundation, generate outstanding business performance, create greater shareholders' equity, contribute to the prosperity of society and set the record again for national economic development.

Thanks to our shareholders for the support over the years and we do look forward to the continuing guidance and encouragement in the future. Thank you!

Chairman: Liu, Wei-Lung

President: Liu, Wei-Lung

Chief Accountant: Chan, Shu-Juan



## **2019 Audit Committee's Review Report**

The Board of Directors has prepared the Company's 2019 Business Report and Financial Statements, of which the individual and consolidated financial reports have been audited by CPA Tseng, Guo-Yang and CPA Lai, Li-Zen of KPMG. An audit report for above financial statement has been issued as well.

The business report, individual and consolidated financial statements mentioned above have been audited and concluded to comply with related regulations by the Audit Committee. Hereby we submit this report according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law.

To

Lungyen Life Service Corp. 2020 Annual Meeting of Shareholders

Convener of the Audit Committee: Yeh, Shu

February 25, 2020

## **2019 Audit Committee's Review Report**

The Board of Directors has prepared the Company's 2019 proposal for profit apportionment, which have been audited and concluded to comply with related regulations by the Audit Committee. Hereby we submit this report according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law.

To

Lungyen Life Service Corp. 2020 Annual Meeting of Shareholders

Convener of the Audit Committee: Yeh, Shu

April 14, 2020

## Comparison Table for the “Rules and Procedures of Board of Directors Meetings” Before and After Revision

Article	After the Revision	Before the Revision	Remarks
7	<p>Board Meetings shall be chaired by the Chairperson of the Board <b><u>if the meeting is convened by the Chairperson.</u></b> However, with respect to the first Meeting of each newly elected Board of Directors, it shall be called and chaired by the Director that received votes representing the largest portion of voting right at the Shareholders Meeting in which the Directors were elected; if two or more Directors are so entitle to convene the Meeting, they shall select from among themselves one Director to serve as Chair.</p> <p><b><u>According to the Company Act Article 203, Item 4 or Article 203-1, Item 3, when Board Meetings are convened by more than half of the Directors, Directors shall select one person from among themselves to serve as Chair.</u></b></p> <p>When the Chairperson of the Board is on leave or for any reason unable to exercise the powers of chairperson, the vice chairperson shall act in place of the chairperson; if there is no vice chairperson or the vice chairperson is also on leave of for any reason unable to exercise the posers of vice chairperson, the chairperson shall appoint one of the Managing Directors to act, or, if there are no Managing Directors, one of the Directors shall be appointed to act as chair. If no such designation is made by the chairperson, the Managing Directors or Directors shall select one person from among themselves to serve as Chair.</p>	<p>Board Meetings shall be <b><u>convened and</u></b> chaired by the Chairperson of the Board. However, with respect to the first Meeting of each newly elected Board of Directors, it shall be called and chaired by the Director that received votes representing the largest portion of voting right at the Shareholders Meeting in which the Directors were elected; if two or more Directors are so entitle to convene the Meeting, they shall select from among themselves one Director to serve as Chair.</p> <p>When the Chairperson of the Board is on leave or for any reason unable to exercise the powers of chairperson, the vice chairperson shall act in place of the chairperson; if there is no vice chairperson or the vice chairperson is also on leave of for any reason unable to exercise the posers of vice chairperson, the chairperson shall appoint one of the Managing Directors to act, or, if there are no Managing Directors, one of the Directors shall be appointed to act as chair. If no such designation is made by the chairperson, the Managing Directors or Directors shall select one person from among themselves to serve as Chair.</p>	<p>Revised in accordance with current laws and regulations.</p>

Appendix 3: Comparison Table for the Rules and Procedures of Board of Directors Meetings” before and after Revision

15	<p>If a Director or a juristic person that the Director represents is an interested party in relation to an agenda item, the Director shall state the import aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interest of the Company, that Director may not participate in discussion or voting on the item, and may not exercise voting rights as proxy for another Director.</p> <p><b><u>When a Director's spouse, second relatives, or a company that has a controlling affiliation with a Director has an interest in the matter at the previous mentioned meeting, the Director shall be deemed to have a stake in the matter.</u></b></p> <p>Where a Director is prohibited by the preceding <u>two</u> paragraphs from exercising voting rights with respect to a resolution at a Board Meeting, the provisions of Article 180, paragraph 2 of the Company Act apply mutatis mutandis in accordance with Article 206, paragraph <u>4</u> of the same Act.</p>	<p>If a Director or a juristic person that the Director represents is an interested party in relation to an agenda item, the Director shall state the import aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interest of the Company, that Director may not participate in discussion or voting on the item, and may not exercise voting rights as proxy for another Director.</p> <p>Where a Director is prohibited by the preceding paragraph from exercising voting rights with respect to a resolution at a Board Meeting, the provisions of Article 180, paragraph 2 of the Company Act apply mutatis mutandis in accordance with Article 206, paragraph <u>3</u> of the same Act.</p>	Revised in accordance with current laws and regulations.
18	<p>These Rules and Procedures shall be adopted by the approval of the Board of Directors Meeting and shall be reported to the Shareholders Meeting.</p> <p>The 1<sup>st</sup> amendment was on January 1, 2007</p> <p>The 2<sup>nd</sup> amendment was on March 31, 2011</p> <p>The 3<sup>rd</sup> amendment was on March 19, 2012</p> <p>The 4<sup>th</sup> amendment was on March 14, 2013</p> <p>The 5<sup>th</sup> amendment was on November 7, 2017</p> <p>The 6<sup>th</sup> amendment was on May 7, 2018</p> <p>The 7<sup>th</sup> amendment was on April 11, 2019</p> <p><b><u>The 8<sup>th</sup> amendment was on February 25, 2020</u></b></p>	<p>These Rules and Procedures shall be adopted by the approval of the Board of Directors Meeting and shall be reported to the Shareholders Meeting.</p> <p>The 1<sup>st</sup> amendment was on January 1, 2007</p> <p>The 2<sup>nd</sup> amendment was on March 31, 2011</p> <p>The 3<sup>rd</sup> amendment was on March 19, 2012</p> <p>The 4<sup>th</sup> amendment was on March 14, 2013</p> <p>The 5<sup>th</sup> amendment was on November 7, 2017</p> <p>The 6<sup>th</sup> amendment was on May 7, 2018</p> <p>The 7<sup>th</sup> amendment was on April 11, 2019</p>	Added new amendment records

**2019 Independent Auditor's Audit Report  
and  
Consolidated Financial Statements**

## INDEPENDENT AUDITORS' REPORT

To Board of Directors and Shareholders  
Lungyen Life Service Corp.

### Opinion

We have audited the accompanying consolidated financial statements of Lungyen Life Service Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits of 2019 consolidated financial statements in accordance with the Regulation Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, No. 1090360805 announcement of Financial Supervisory Commission, and auditing standards generally accepted in the Republic of China, and 2018 consolidated financial statements in accordance with the Regulation Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provided a separate opinion on these matter. Key audit

matters for the Company's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

#### 1. Revenues Recognition

Accounting policies regarding revenues recognition can be found Notes 4 (18) Revenues Recognition; explanation for revenues recognition can be found in Notes 6 (20) Revenues.

Explanation for key audit matters:

The Company sells columbarium and cemetery products and provides funeral services, prepayments for products and services are paid by cash or installments. Timing of revenues recognition is judged by management team. Besides, as being a listed company, the Company may be affected by external investors and debtors' expectation and internal performance pressure to inflate revenues, which may bring risks to revenues recognition. Therefore, examination on revenues recognition is one of our key audit matters when auditing the Company's consolidated financial reports.

Adaptive auditing processes:

- Examine whether revenues were recognized based on the Company's internal control process;
- Conduct the selective examination of sales orders, contracts and collection records to clarify whether revenues were recognized at a proper timing.

#### 2. Goodwill and Goodwill Impairment

Accounting policies regarding goodwill and goodwill impairment can be found in Notes 4 (16) Intangible Assets; estimation and uncertainty of assumption of goodwill and goodwill impairment can be found in Notes 5 (2); explanation of goodwill and goodwill impairment can be found in Notes 6 (11) of the consolidated financial report.

Explanation of key auditing matters:

The Company's goodwill and trademark were resulted from corporate acquisition; receivable amounts related to goodwill and trademark were estimated based on managers' subjective judgment thus including high uncertainty, which may result in material risks of inaccurate expression. For this reason, examination on goodwill and goodwill impairment is one of our key audit matters when auditing the Company's consolidated financial reports.

Adaptive auditing processes:

- Examine whether the cash generating unit and impairment test process recognized by managers were comprehensive and correct.
- Access the rationality of evaluation method adopted by managers to evaluate receivable amounts; access the accuracy of past forecast made by managers; examine calculating and accounting records of receivable amounts of cash unit evaluated by managers; access

parameters used to estimate cash flow forecast and receivable amounts (e.g. sales growth rate); and examine weighted average cost of capital and parameters (e.g. stock price) thereon used in the impairment tests.

### **Other Matter**

We also audited the unconsolidated financial report of Lungyen Life Service Corp. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion and an emphasis of matter.

### **Responsibilities of Management and Those Charge with Governance of the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operation, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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



As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

CPA: *Zeng, Guo-Yang*

*Lai, Li-Zeng*

Approval issued by the competent securities authority:

FSC VI. Tzi No. 0940129108

February 25, 2020

**Lungyen Life Service Corp. and Subsidiaries**

**Consolidated Balance Sheets**

**December 31, 2019 and 2018**

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

Assets	12.31.2019		12.31.2018			Liabilities and Equity		12.31.2019		12.31.2018	
	Amount	%	Amount	%		Amount	%	Amount	%		
<b>Current assets:</b>						<b>Current liabilities:</b>					
1100 Cash and cash equivalents (Note 6 (1))	\$ 231,964	-	\$ 194,002	-	2100	Short-term loan (Note 6 (12))	\$ 154,300	-	3,165,300	5	
1110 Financial assets at fair value through profit or loss – current (Note 6 (2) & 9)	9,717,723	15	1,527,182	2	2130	Contract Liability— current(Note 6 (20) & 9)	38,999,745	60	37,755,020	61	
1150 Notes receivable, net (Note 6 (3) & (20))	778	-	6,345	-	2150	Notes payable	7,023	-	7,105	-	
1170 Accounts receivable, net (Note 6 (3) & (20))	8,728,644	14	8,748,396	14	2170	Payable accounts (Note 7)	663,204	1	617,756	1	
1320 Inventory (Note 6(4), 7, & 8)	15,703,976	24	15,440,765	25	2200	Other payable accounts (Note 7)	832,177	2	830,485	1	
1410 Prepayments	215,171	-	251,030	-	2230	Current income tax liabilities (Note 6 (17))	252,002	-	290,179	-	
1460 Non-current assets for sale (net) (Note 6 (5) ,8 & 9)	-	-	2,565,683	4	2280	Lease liability-current (Note 7)	38,318	-	-	-	
1476 Other financial assets – current (Note 6 (12), 8 & 9)	2,686,952	4	2,113,425	3	2310	Advance receipts (Note 10)	892,909	1	834,391	1	
1479 Other current assets (Note 7)	14,048	-	7,600	-	2321	Corporate bonds payable within one year or one business cycle (Note 6 (14))	3,243,019	5	-	-	
1480 Incremental cost of contract acquisition – current (Note 9)	8,124,238	13	7,969,334	13	2399	Other current liabilities - others	6,878	-	7,835	-	
	<u>45,423,494</u>	<u>70</u>	<u>38,823,762</u>	<u>61</u>			<u>45,089,575</u>	<u>69</u>	<u>43,508,071</u>	<u>69</u>	
<b>Non-current assets:</b>						<b>Non-current liabilities:</b>					
1517 Financial assets at fair value through other comprehensive income (Note 6 (2), 8, & 9)	4,543,340	7	10,048,850	17	2530	Corporate bond payable (Note 6 (14))	-	-	3,190,916	5	
1535 Financial assets at amortized cost— non-current (Note 6(2) & 9)	1,463,240	2	1,017,051	2	2570	Deferred income tax liabilities (Note 6 (17))	3,665	-	16,119	-	
1550 Investment under equity method (Note 6 (6) & (7))	945,905	1	1,209,106	2	2640	Net defined benefit liability – non-current (Note 6 (16))	32,601	-	30,686	-	
1600 Property, plant and equipment (Note 6 (8), 7, 8, & 9)	6,078,158	10	5,812,305	9	2645	Deposit received	44,135	-	71,542	-	
1755 Right-of-use assets (Note 6 (9) & 7)	38,318	-	3,893,572	6	2670	Other non-current liabilities - others	2,981	-	2,981	-	
1760 Investment property, net (Note 6 (10), 8, & 9)	3,864,533	6					<u>83,382</u>	<u>-</u>	<u>3,312,244</u>	<u>5</u>	
1780 Intangible assets (Note 6 (11))	755,937	1	759,365	1		<b>Total liabilities</b>	<u>45,172,957</u>	<u>69</u>	<u>46,820,315</u>	<u>74</u>	
1840 Deferred income tax assets (Note 6 (17))	856,719	1	899,795	1	3100	<b>Equity attributable to owners of parent (Note 6(14) &amp; (18))</b>					
1980 Other financial assets – non-current (Note 7)	351,002	1	55,838	-	3200	Capital stock – common stock	4,200,842	7	4,200,842	7	
1990 Other non-current assets - others	786,162	1	773,664	1	3310	Capital surplus	2,519,954	4	2,519,954	4	
	<u>19,683,314</u>	<u>30</u>	<u>24,469,546</u>	<u>39</u>	3350	Retained earnings:					
					3400	Legal reserve	1,498,055	2	1,280,001	2	
<b>Total Assets</b>	<u>\$ 65,106,808</u>	<u>100</u>	<u>\$ 63,293,308</u>	<u>100</u>	36xx	Unappropriated retained earnings	10,373,806	16	6,293,123	10	
						Other equity interest	(156,696)	-	688,453	1	
						<b>Total equity attributable to owners of parent</b>	18,435,961	29	14,982,373	24	
						Non-controlling interest (Note 6 (7) & (18))	1,497,890	2	1,490,620	2	
						<b>Total Equity</b>	<u>19,933,851</u>	<u>31</u>	<u>16,472,993</u>	<u>26</u>	
						<b>Total liabilities and equity</b>	<u>\$ 65,106,808</u>	<u>100</u>	<u>63,293,308</u>	<u>100</u>	

**Lungyen Life Service Corp. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

For Year Ended December 31, 2019 and 2018

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		2019		2018	
		Amount	%	Amount	%
4000	<b>Operating revenue (Note 6 (5), (15), (20) &amp; 7)</b>	\$ 4,559,348	100	4,957,018	100
5000	<b>Operating cost(Note 6 (15) &amp; 7)</b>	<u>1,343,202</u>	<u>29</u>	<u>1,613,521</u>	<u>33</u>
5900	<b>Operating gross profit (loss)</b>	<u>3,216,146</u>	<u>71</u>	<u>3,343,497</u>	<u>67</u>
	<b>Operating expenses (Note 6 (16),(21) &amp; 7) :</b>				
6100	Selling expenses	617,805	14	981,072	20
6200	Administration expenses	612,176	13	547,579	11
6450	Expected credit losses	<u>16,491</u>	<u>-</u>	<u>7,763</u>	<u>-</u>
6000		<u>1,246,472</u>	<u>27</u>	<u>1,536,414</u>	<u>31</u>
6500	<b>Other income and expenses (Note 6 (22))</b>	<u>139,337</u>	<u>3</u>	<u>145,618</u>	<u>3</u>
6900	<b>Operating income</b>	<u>2,109,011</u>	<u>47</u>	<u>1,952,701</u>	<u>39</u>
	<b>Non-operating income and expenses (Note 6(6), (23) &amp; 7) :</b>				
7010	Other income	598,455	13	433,354	9
7020	Other gains and losses	41,450	1	338,277	7
7050	Financial costs	(72,122)	(2)	(83,273)	(2)
7060	Share of profit (loss) of associates and joint ventures accounted for using equity method (Note 6 (6))	<u>(52,289)</u>	<u>(1)</u>	<u>(42,241)</u>	<u>(1)</u>
		<u>515,494</u>	<u>11</u>	<u>646,117</u>	<u>13</u>
7900	<b>Operating income before tax</b>	2,624,505	58	2,598,818	52
7950	<b>Less: Income tax expense (Note 6 (17))</b>	<u>254,163</u>	<u>6</u>	<u>307,344</u>	<u>6</u>
	<b>Net income</b>	<u>2,370,342</u>	<u>52</u>	<u>2,291,474</u>	<u>46</u>
8300	<b>Other comprehensive income:</b>				
8310	<b>Items that may not be subsequently reclassified to profit or loss:</b>				
8311	Defined benefit obligation (Note 6(16))	(1,528)	-	791	-
8316	Unrealized loss on investments in equity instruments at fair value through other comprehensive income	2,712,233	60	481,235	10
8349	Less: Income tax related to non-reclassified items (Note 6 (17))	<u>(164,770)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>
	<b>Total items that may not be subsequently reclassified to profit or loss</b>	<u>2,545,935</u>	<u>56</u>	<u>482,026</u>	<u>10</u>
8360	<b>Items that may be subsequently reclassified to profit or loss</b>				
8361	Exchange differences on translation of foreign statements	(20,898)	-	34,825	1
8367	Unrealized loss on investments in debt instruments at fair value through other comprehensive income	66,432	1	(42,204)	(1)
8370	Share of other comprehensive profit (loss) of associates and joint ventures accounted for using equity method- items that may be reclassified to profit or loss	(8,830)	-	(45,815)	(1)
8399	Less: Income tax related to items that may be reclassified	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Total items that may be subsequently reclassified to profit or loss</b>	<u>36,704</u>	<u>1</u>	<u>(53,194)</u>	<u>(1)</u>
8300	<b>Other comprehensive income, net</b>	<u>2,582,639</u>	<u>57</u>	<u>428,832</u>	<u>9</u>
	<b>Total comprehensive income</b>	<u>\$ 4,952,981</u>	<u>109</u>	<u>2,720,306</u>	<u>55</u>
	<b>Net income, attributable to:</b>				
8610	Owners of parent	\$ 2,302,871	51	2,180,535	44
8620	Non-controlling interest	<u>67,471</u>	<u>1</u>	<u>110,939</u>	<u>2</u>
		<u>\$ 2,370,342</u>	<u>52</u>	<u>2,291,474</u>	<u>46</u>
	<b>Total comprehensive income, attributable to:</b>				
8710	Owners of parent	\$ 4,882,142	107	2,606,983	53
8720	Non-controlling interest	<u>70,839</u>	<u>2</u>	<u>113,323</u>	<u>2</u>
		<u>\$ 4,952,981</u>	<u>109</u>	<u>2,720,306</u>	<u>55</u>
	<b>Earnings per share (Note 6 (19))</b>				
9750	<b>Basic earnings per share (NTD)</b>	<u>\$ 5.48</u>		<u>5.19</u>	
9850	<b>Diluted earnings per share (NTD)</b>	<u>\$ 4.93</u>		<u>4.70</u>	

**Lungyen Life Service Corp. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For Year of 2019 and 2018**

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent											
	Capital Stock		Retained Earnings			Exchange differnces on foreign translation	Others		Total	Total equity attributable to owners of parent	Non- controlling interests	Total equity
	Common Stock	Capital Surplus	Legal reserve	Unappropriated Earnings	Total		Unrealized gain(loss) on financial assets at fair value through other comprehensive income	Unrealized gain (loss) on available- for- sale financial assets				
<b>Balance – January 1, 2018</b>	\$ 4,200,842	2,519,954	1,095,601	4,253,894	5,349,495	(13,825)	-	472,440	458,615	12,528,906	1,377,297	13,906,203
Retrospective adjustment due to new accounting standard	-	-	-	1,104,855	1,104,855	-	264,279	(472,440)	(208,161)	896,694	-	896,694
Restated beginning balance	4,200,842	2,519,954	1,095,601	5,358,749	6,454,350	(13,825)	264,279	-	250,454	13,425,600	1,377,297	14,802,897
Net income	-	-	-	2,180,535	2,180,535	-	-	-	-	2,180,535	110,939	2,291,474
Other comprehensive income	-	-	-	791	791	(10,990)	436,647	-	425,657	426,448	2,384	428,832
Total comprehensive income	-	-	-	2,181,326	2,181,326	(10,990)	436,647	-	425,657	2,606,983	113,323	2,720,306
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	184,400	(184,400)	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares (NTD\$2.5 per share)	-	-	-	(1,050,210)	(1,050,210)	-	-	-	-	(1,050,210)	-	(1,050,210)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	(12,342)	(12,342)	-	12,342	-	12,342	-	-	-
<b>Balance –December 31, 2018</b>	4,200,842	2,519,954	1,280,001	6,293,123	7,573,124	(24,815)	713,268	-	688,453	14,982,373	1,490,620	16,472,993
Net income	-	-	-	2,302,871	2,302,871	-	-	-	-	2,302,871	67,471	2,370,342
Other comprehensive income	-	-	-	(1,528)	(1,528)	(29,728)	2,610,527	-	2,580,799	2,579,271	3,368	2,582,639
Total comprehensive income	-	-	-	2,301,343	2,301,343	(29,728)	2,610,527	-	2,580,799	4,882,142	70,839	4,952,981
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	218,054	(218,054)	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares (NTD\$3.0 per share)	-	-	-	(1,260,253)	(1,260,253)	-	-	-	-	(1,260,253)	-	(1,260,253)
Changes in ownership interest in subsidiaries	-	-	-	(3,531)	(3,531)	-	-	-	-	(3,531)	3,531	-
Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	3,261,178	3,261,178	-	(3,425,948)	-	(3,425,948)	(164,770)	-	(164,770)
Obtaining subsidiary equity from non-controlling interests	-	-	-	-	-	-	-	-	-	-	(67,100)	(67,100)
<b>Balance –December 31, 2019</b>	<b>\$ 4,200,842</b>	<b>2,519,954</b>	<b>1,498,055</b>	<b>10,373,806</b>	<b>11,871,861</b>	<b>(54,543)</b>	<b>(102,153)</b>	<b>-</b>	<b>(156,696)</b>	<b>18,435,961</b>	<b>1,497,890</b>	<b>19,933,851</b>

Appendix 4: 2019 Independent Auditors' Report  
and consolidated financial statements  
**Lungyen Life Service Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
Year Ended December 31, 2019 and 2018  
(expressed in thousands of New Taiwan dollars)

	<u>2019</u>	<u>2018</u>
<b>Cash flows from (used in) operating activities</b>		
<b>Profit (loss) before tax</b>	\$ 2,624,505	2,598,818
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	142,174	127,920
Amortization expense	16,100	17,427
Allowance for bad debt	16,491	7,763
Net loss (profit) on financial assets or liabilities at fair value through profit or loss	(75,311)	12,347
Interest expense	72,122	83,273
Interest revenue	(287,052)	(277,761)
Dividend income	(332,984)	(232,871)
Loss (gain) on affiliates under equity method	52,289	42,241
Gain on disposal of non-current assets for sale	(834,167)	-
Loss (gain) on disposal and scrap of property, plant and equipment	(2,534)	1,780
Loss (gain) on disposal of investment property	-	(525)
Loss (gain) on disposal of other assets	-	(347,626)
Loss (gain) on disposal of investment under equity method	(2,331)	6,924
Impairment loss on financial assets	-	5,940
Exchange loss (profit) on financial assets at fair value through other comprehensive income	29,860	(51,860)
Loss on disposal of financial assets at fair value through other comprehensive income	<u>(1,318)</u>	<u>27,734</u>
Total adjustments to reconcile profit (loss)	<u>(1,206,661)</u>	<u>(577,294)</u>
Changes in operating assets and liabilities:		
(Increase) Decrease in financial assets at fair value through income	(4,035,230)	53,012
Decrease in notes receivable	5,567	10,232
(Increase) Decrease in account receivable	34,025	(28,893)
Increase in inventories	(263,212)	(672,416)
Decrease in prepayments	40,160	169,335
Disposal of non-current assets for sale	3,406,853	-
Increase in other financial assets	(59,305)	(99,759)
Increase in other current assets	(6,450)	(5,180)
Increase (Decrease) in incremental cost of contract acquisition	(153,341)	183,643
Increase (Decrease) in contract liabilities	1,244,725	(155,281)
Increase in notes payable and accounts payable	45,366	153,642
Increase in other payable	1,212	76,677
Increase in advance receipts	58,518	5,637
Decrease in other current liabilities	(954)	(729)
Increase in defined benefits liabilities	<u>387</u>	<u>214</u>
Total net change in assets and liabilities related to operations	<u>318,321</u>	<u>(309,866)</u>
Total Adjustments	<u>(888,340)</u>	<u>(887,160)</u>
Cash inflow generated from operations	1,736,165	1,711,658
Interest received	251,143	277,891
Dividend received	332,984	232,871
Interest paid	(9,185)	(25,874)
Income taxes (paid)	<u>(426,488)</u>	<u>(368,476)</u>

**Lungyen Life Service Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows (Cont.)**

Year Ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

	<u>2019</u>	<u>2018</u>
<b>Net cash flows from (used in) operating activities</b>	<u>1,884,619</u>	<u>1,828,070</u>
<b>Cash flows from (used in) investment activities</b>		
Acquisition of financial assets at fair value through other comprehensive income	(1,484,960)	(1,857,471)
Disposal of financial assets at fair value through other comprehensive income	9,574,028	929,548
Return on capital reduction of financial assets at fair value through other comprehensive income	-	893
Distribution from liquidation of financial assets at fair value through other comprehensive income	-	2,551
Acquisition of financial assets at amortized cost	(530,342)	(607,084)
Repayment of financial assets at maturity measured at amortized cost	75,000	-
Acquisition of financial assets measured at fair value through profit and loss	(4,080,000)	-
Acquisition of investment under equity method	(46,563)	-
Disposal of investment under equity method	231,912	1,009
Acquisition of property, plant and equipment	(374,293)	(71,929)
Disposal of property, plant and equipment	2,657	814
Acquisition of intangible assets	(14,311)	(12,161)
Acquisition of investment property	(1,010)	(675)
Disposal of investment property	-	750
Decrease (Increase) in other financial assets - current	(509,730)	215,383
Decrease (Increase) in other financial assets - non current	(295,165)	(10,075)
Decrease (Increase) of other non-current assets	(12,502)	604,302
Acquisition of other non-current assets	-	(293,430)
Cash outflow from loss of control of subsidiaries	-	(17,621)
<b>Net cash flows from (used in) investing activities</b>	<u>2,534,721</u>	<u>(1,115,196)</u>
<b>Cash flow from (used in) financing activities:</b>		
Increase in short-term loans	13,038,258	8,479,300
Decrease in short-term loans	(16,049,258)	(8,138,000)
Increase in guarantee deposits	(27,407)	10,611
Repayment of lease principal	(13,670)	-
Cash dividends	(1,260,253)	(1,050,210)
Change in non-controlling interests	(67,100)	-
<b>Net cash flows from (used in) financing activities</b>	<u>(4,379,430)</u>	<u>(698,299)</u>
Effects of foreign exchange rates changes on cash and cash equivalents	(1,948)	9,646
Net (decrease) increase in cash and cash equivalents	37,962	24,221
Cash and cash equivalents at beginning of period	<u>194,002</u>	<u>169,781</u>
Cash and cash equivalents at end of period	<u><b>\$ 231,964</b></u>	<u><b>194,002</b></u>

**2019 Independent Auditor's Audit Report  
and  
Individual Financial Statements**



## INDEPENDENT AUDITORS' REPORT

To Board of Directors and Shareholders

Lungyen Life Service Corp.

We have audited the financial statements of Lungyen Life Service Corporation, which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulation Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provided a separate opinion on these matter. Key audit matters for the Company's financial statements for the year ended December 31, 2018 are stated as follows:

#### 1. Revenues Recognition

Accounting policies regarding revenues recognition can be found Notes 4 (17) Revenues Recognition; explanation for revenues recognition can be found in Notes 6 (18) Revenues.

Explanation for key audit matters:

The Company sells columbarium and cemetery products and provides funeral services, and the products and services are paid by cash or installments. Timing of revenues recognition is judged by management team.

Besides, as being a listed company, the Company may be affected by external investors and debtors' expectation and internal performance pressure to inflate revenues, which may bring risks to revenues recognition. Therefore, examination on revenues recognition is one of our key audit matters when auditing the Company's individual financial reports.

Adaptive auditing processes:

- Examine whether revenues were recognized based on the Company's internal control process;
- Conduct the selective examination of sales orders, contracts and collection records to clarify whether revenues were recognized at a proper timing.

## 2. Goodwill and Goodwill Impairment

Accounting policies regarding goodwill and goodwill impairment can be found in Notes 4 (15) Intangible Assets; estimation and uncertainty of assumption of goodwill and goodwill impairment can be found in Notes 5 (2); explanation of goodwill and goodwill impairment can be found in Notes 6 (10) of the individual financial report.

Explanation of key auditing matters:

The Company's goodwill and trademark were resulted from corporate acquisition; receivable amounts related to goodwill and trademark were estimated based on managers' subjective judgment thus including high uncertainty, which may result in material risks of inaccurate expression. For this reason, examination on goodwill and goodwill impairment is one of our key audit matters when auditing the Company's financial reports.

Adaptive auditing processes:

- Examine whether the cash generating unit and impairment test process recognized by managers were comprehensive and correct.
- Access the rationality of evaluation method adopted by managers to evaluate receivable amounts; access the accuracy of past forecast made by managers; examine calculating and accounting records of receivable amounts of cash unit evaluated by managers; access parameters used to estimate cash flow forecast and receivable amounts (e.g. sales growth rate); and examine weighted average cost of capital and parameters (e.g. stock price) thereon used in the impairment tests.

## **Management's Responsibility for the Individual Financial Statements**

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by

Securities Issuers to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operation, or has no realistic alternative but to do so.

The Audit Committee of the Company are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Individual Financial Statements**

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors'

report to the related disclosures in the individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the individual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

CPA: *Zeng, Guo-Yang*

*Lai. Li-Zeng*

Approval issued by the competent securities authority:  
FSC VI. Tzi No. 0940129108  
February 25, 2020

**Lungyen Life Service Corp. and Subsidiaries**  
**Individual Balance Sheets**

December 31, 2019 and 2018

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		12.31.2019		12.31.2018				12.31.2019		12.31.2018	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>Assets</b>											
<b>Current Assets :</b>											
1100	Cash and cash equivalents (Note 6 (1) & (22))	\$ 147,352	-	107,666	-	2100	Short-term loan ( Note 6 (11), (22))	\$ -	-	3,089,000	5
1110	Financial assets at fair value through profit or loss – current (Note 6 (2) 、(22) and 9)	9,686,443	16	1,227,298	2	2130	Contract Liability – current ( Note 6 (18) & 9)	38,608,206	62	37,522,150	63
1150	Notes receivable, net (Note 6 (3) ,(18) & (22))	777	-	6,345	-	2150	Notes Payable ( Note 6 (22))	6,941	-	7,027	-
1170	Accounts receivable, net (Note 6 (3), (18) & (22))	8,106,032	13	8,120,727	13	2170	Accounts Payable ( Note 6 (22))	554,219	1	460,468	1
1320	Inventory (Note 6 (4) & 8)	12,991,222	21	12,125,388	21	2180	Accounts Payable-related party ( Note 6 (22) & 7)	41,095	-	41,104	-
1410	Prepayments (Note 7)	222,373	-	257,307	-	2200	Other payable accounts ( Note 6 (22) & 7)	631,781	1	611,424	1
1460	Non-current assets for sale (net) (Note 6 (5) & 8)	-	-	2,565,683	4	2230	Current income tax liabilities	246,997	-	228,777	-
1476	Other financial assets – current (Note 6 (22), 7 & 9)	2,614,956	4	2,146,927	4	2310	Advance receipts ( Note 9)	871,543	1	833,687	1
1479	Other current assets-other	11,578	-	7,567	-	2321	Corporate bonds payable within one year or one business cycle (Note 6 (12), (22) & 7)	3,243,019	5	-	-
1480	Incremental cost of contract acquisition - current	8,024,093	13	7,910,905	13	2355	Lease payables-current ( Note 6 (22))	38,318	-	-	-
		<u>41,804,826</u>	<u>67</u>	<u>34,475,813</u>	<u>57</u>	2399	Other current liabilities - others( Note 7)	28,295	-	23,262	-
								<u>44,270,414</u>	<u>70</u>	<u>42,816,899</u>	<u>71</u>
<b>Non-current assets :</b>											
1517	Financial assets at fair value through other comprehensive income (Note 6 (2), (22), 8 & 9)	4,453,495	7	9,966,394	17	2530	Corporate bond payable (Note 6 (12), (22) & 7)	-	-	3,190,916	5
1535	Financial assets at amortized cost – non-current (Note 6 (2), (22) & 9)	1,463,240	2	1,017,051	2	2570	Deferred income tax liabilities (Note 6 (15))	3,665	-	16,119	-
1550	Investment under equity method (Note 6 (6))	2,807,576	5	3,652,194	6	2640	Net defined benefit liability – non-current (Note 6 (14))	32,601	-	30,686	-
1600	Property, plant and equipment (Note 6 (7), 7, 8 & 9)	5,953,704	10	5,679,403	9	2645	Deposit received (Note 6 (22))	44,135	-	71,542	-
1755	Right-of-use assets (Note 6 (8))	38,318	-	-	-			<u>80,401</u>	<u>-</u>	<u>3,309,263</u>	<u>5</u>
1760	Investment property, net (Note 6 (9), 8 & 9)	3,857,699	6	3,886,738	6			<u>44,350,815</u>	<u>70</u>	<u>46,126,162</u>	<u>76</u>
1780	Intangible assets (Note 6 (10))	755,937	1	759,365	1			<b>Total liabilities</b>			
1840	Deferred income tax assets (Note 6 (15))	818,165	1	854,014	1			<b>Equity:</b>			
1980	Other financial assets – non-current (Note 6 (22) & 7)	48,035	-	44,283	-	3100	Capital stock ( Note 6 (16))	4,200,842	7	4,200,842	7
1990	Other non-current assets - others	785,781	1	773,280	1	3200	Capital surplus ( Note 6 (12) & (16))	2,519,954	4	2,519,954	4
		<u>20,981,950</u>	<u>33</u>	<u>26,632,722</u>	<u>43</u>			Retained earnings:			
						3310	Legal reserve ( Note 6 (16))	1,498,055	2	1,280,001	2
						3350	Unappropriated retained earnings (Note 6 (16))	10,373,806	17	6,293,123	10
								<u>11,871,861</u>	<u>19</u>	<u>7,573,124</u>	<u>12</u>
								Other equity interest:			
						3410	Exchange difference for conversion of financial statements of foreign operating institutions ( Note 6 (16))	(54,543)	-	(24,815)	-
						3420	Unrealized gains and losses on financial assets measured at fair value through other comprehensive income ( Note 6 (16))	(102,153)	-	713,268	1
								<u>(156,696)</u>	<u>-</u>	<u>688,453</u>	<u>1</u>
								<u>18,435,961</u>	<u>30</u>	<u>14,982,373</u>	<u>24</u>
								<u>\$ 62,786,776</u>	<u>100</u>	<u>61,108,535</u>	<u>100</u>
								<b>Total Equity</b>			
								<u>\$ 62,786,776</u>	<u>100</u>	<u>61,108,535</u>	<u>100</u>
								<b>Total liabilities and equity</b>			

**Lungyen Life Service Corp. and Subsidiaries**  
**Individual Statements of Comprehensive Income**

January 1 to December 31, 2019 and 2018

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
4000 <b>Operating revenue (Note 6 (13), (18) &amp; 7)</b>	\$ 4,027,197	100	4,378,482	100
5000 <b>Operating cost (Note 6 (13))</b>	1,146,307	28	1,552,236	36
5900 <b>Operating gross profit (loss)</b>	2,880,890	72	2,826,246	64
<b>Operating expenses:</b>				
6100 Selling expenses	544,225	14	877,929	20
6200 Administration expenses (Note 6 (19) & 7)	539,521	13	485,396	11
6450 Expected credit impairment loss (gain) (Note 6 (3))	16,491	-	7,763	-
6000 <b>Total operating expenses</b>	1,100,237	27	1,371,088	31
6500 <b>Other income and expenses (Note 6(20))</b>	129,021	3	138,011	3
6900 <b>Operating income (loss)</b>	1,909,674	48	1,593,169	36
<b>Non-operating income and expenses:</b>				
7010 Other income (Note 6 (21) & 7)	592,935	15	463,243	11
7020 Other gains and losses (Note 6(2) & (21))	41,269	1	346,825	8
7050 Financial costs (Note 6 (21))	(69,663)	(2)	(79,419)	(2)
7070 Share of profit (loss) of subsidiaries associates and joint ventures accounted for using equity method (Note 6 (6))	49,761	1	69,751	2
	614,302	15	800,400	19
7900 <b>Operating income before tax</b>	2,523,976	63	2,393,569	55
7950 <b>Less: Income tax expense (Note 6 (15))</b>	221,105	5	213,034	5
<b>Net income</b>	2,302,871	58	2,180,535	50
8300 <b>Other comprehensive income:</b>				
8310 <b>Items that may not be subsequently reclassified to profit or loss:</b>				
8311 Revaluation of defined benefit plans (Note 6 (13))	(1,528)	-	791	-
8316 Unrealized loss on investments in equity instruments at fair value through other comprehensive income	2,704,843	67	476,006	11
8330 Share of other comprehensive profit (loss) of associates and joint ventures accounted for using equity method- items that may not be reclassified to profit or loss	4,022	-	2,845	-
8349 Less: Income tax related to non-reclassified items (Note 6 (15))	(164,770)	(4)	-	-
<b>Total items that may not be subsequently reclassified to profit or loss</b>	2,542,567	63	479,642	11
8360 <b>Items that may be subsequently reclassified to profit or loss:</b>				
8361 Exchange differences on translation of foreign statements	(20,898)	(1)	34,825	1
8367 Unrealized loss on investments in liability instruments at fair value through other comprehensive income	66,432	2	(42,204)	(1)
8380 Share of other comprehensive profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method- items that may be reclassified to profit or loss	(8,830)	-	(45,815)	(1)
8399 Less: Income tax related items that may be reclassified	-	-	-	-
<b>Total items that may be subsequently reclassified to profit or loss</b>	36,704	1	(53,194)	(1)
8300 <b>Other comprehensive income, net</b>	2,579,271	64	426,448	10
<b>Total comprehensive income</b>	\$ 4,882,142	122	2,606,983	60
<b>Net income, attributable to:</b>				
<b>Earnings per share (Note 6(17))</b>				
9750 <b>Basic earnings per share (NTD)</b>	\$	5.48		5.19
9850 <b>Diluted earnings per share (NTD)</b>	\$	4.93		4.70

**Lungyen Life Service Corp. and Subsidiaries**  
**Individual Statements of Changes in Equity**  
**For Year of 2019 and 2018**

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus	Retained Earnings		Total	Exchange differences on foreign translation	Others		Total	Total equity
			Legal reserve	Unappropriated Earnings			Unrealized gain (loss) on financial assets at fair value through other comprehensive income	Unrealized gain (loss) on available-for- sale financial assets		
<b>Balance – January 1, 2018</b>	\$ 4,200,842	2,519,954	1,095,601	4,253,894	5,349,495	(13,825)	-	472,440	458,615	12,528,906
Retrospective adjustment due to new accounting standard	-	-	-	1,104,855	1,104,855	-	264,279	(472,440)	(208,161)	896,694
Restated beginning balance	4,200,842	2,519,954	1,095,601	5,358,749	6,454,350	(13,825)	264,279	-	250,454	13,425,600
Net income	-	-	-	2,180,535	2,180,535	-	-	-	-	2,180,535
Other comprehensive income	-	-	-	791	791	(10,990)	436,647	-	425,657	426,448
Total comprehensive income	-	-	-	2,181,326	2,181,326	(10,990)	436,647	-	425,657	2,606,983
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	184,400	(184,400)	-	-	-	-	-	-
Cash dividends on ordinary shares (NTD\$2.5 per share)	-	-	-	(1,050,210)	(1,050,210)	-	-	-	-	(1,050,210)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	(12,342)	(12,342)	-	12,342	-	12,342	-
<b>Balance – December 31, 2018</b>	4,200,842	2,519,954	1,280,001	6,293,123	7,573,124	(24,815)	713,268	-	688,453	14,982,373
Net income	-	-	-	2,302,871	2,302,871	-	-	-	-	2,302,871
Other comprehensive income	-	-	-	(1,528)	(1,528)	(29,728)	2,610,527	-	2,580,799	2,579,271
Total comprehensive income	-	-	-	2,301,343	2,301,343	(29,728)	2,610,527	-	2,580,799	4,882,142
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	218,054	(218,054)	-	-	-	-	-	-
Cash dividends on ordinary shares (NTD\$3.0 per share)	-	-	-	(1,260,253)	(1,260,253)	-	-	-	-	(1,260,253)
Changes in ownership interest in subsidiaries	-	-	-	(3,531)	(3,531)	-	-	-	-	(3,531)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	3,261,178	3,261,178	-	(3,425,948)	-	(3,425,948)	(164,770)
<b>Balance – December 31, 2019</b>	<b>\$ 4,200,842</b>	<b>2,519,954</b>	<b>1,498,055</b>	<b>10,373,806</b>	<b>11,871,861</b>	<b>(54,543)</b>	<b>(102,153)</b>	<b>-</b>	<b>(156,696)</b>	<b>18,435,961</b>

## Lungyen Life Service Corp.

### Statements of Cash Flows

#### For The Twelve Months Ended December 31, 2019 and 2018

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2019	2018
<b>Cash flows from operating activities:</b>		
<b>Profit (loss) before tax</b>	\$ 2,523,976	2,393,569
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	130,332	120,228
Amortization expense	16,100	17,427
Allowance for doubtful accounts	16,491	7,763
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(75,080)	13,868
Interest expense	69,663	79,419
Interest income	(265,657)	(269,358)
Dividend income	(327,869)	(228,582)
Share of profit (loss) of associates and joint ventures accounted for using equity method	(49,761)	(69,751)
Loss (gain) on disposal and scrap of property, plant and equipment	(2,534)	606
Loss (gain) on disposal of investment property	-	(525)
Loss (gain) on disposal of other assets	-	(347,626)
Gain on disposal of non-current assets for sale	(834,167)	-
Disposal of investment gains (losses)	(2,331)	-
Impairment loss on financial assets carried at costs	-	5,940
Exchange (profit) loss on financial assets at fair value through other comprehensive income	29,860	(51,860)
Loss on disposal of financial assets at fair value through other comprehensive income	(1,318)	27,734
Total adjustments to reconcile profit (loss)	(1,296,271)	(694,717)
<b>Changes in operating assets and liabilities:</b>		
Net changes in operating assets:		
Financial assets at fair value through income	(4,304,065)	72,442
Notes receivable and account receivable, net	34,577	154,589
Inventories	(133,831)	(348,981)
Prepayments	38,991	130,511
Other financial assets - current	27,200	39,733
Other current assets	(4,764)	(5,690)
Incremental cost of contract acquisition	(111,624)	215,682
Disposal of non-current assets for sale	3,406,853	-
Total net changes in operating assets	(1,046,663)	258,286
Net changes in operating liabilities:		
Contract liability	1,086,056	(347,397)
Notes payable and accounts payable (including related parties)	90,809	120,241
Other payable	17,636	54,696
Advance receipts	37,850	5,418
Other current liabilities	4,976	(8,524)
Net defined benefit liabilities	387	214
Total net changes in operating liabilities	1,237,714	(175,352)
Total net changes in operating assets and liabilities	191,051	82,934
Total adjustments	(1,105,220)	(611,783)
Cash inflow (outflow) generated from operations	1,418,756	1,781,786
Interest received	229,748	269,488



**Lungyen Life Service Corp.**

**Consolidated Statements of Cash Flows (Cont.)**

**For The Twelve Months Ended December 31, 2019 and 2018**

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	<b>2019</b>	<b>2018</b>
Dividend received	327,869	228,582
Interest paid	(5,961)	(22,021)
Income taxes paid	(344,260)	(240,910)
<b>Net cash flows from (used in) operating activities</b>	<u>1,626,152</u>	<u>2,016,925</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through other comprehensive income	(1,484,960)	(1,857,468)
Disposal of financial assets at fair value through other comprehensive income	9,574,028	929,099
Distribution from liquidation of financial assets at fair value through other comprehensive income	-	2,551
Acquisition of financial assets at amortized cost	(530,342)	(607,084)
Repayment of financial assets at maturity measured at amortized cost	75,000	-
Acquisition of financial assets mandatory measured at fair value through profit or loss	(4,080,000)	-
Acquisition of investment under equity method	(46,563)	-
Disposal of investment under equity method	231,912	-
Returned capital of liquidation of invested companies under equity method	127	-
Acquisition of property, plant and equipment	(364,341)	(62,245)
Disposal of property, plant and equipment	2,657	318
Acquisition of intangible assets	(12,930)	(12,161)
Cash inflows from mergers	1,456	-
Acquisition of investment real estate	(1,010)	(675)
Disposal of investment property	-	749
Decrease (increase) in other financial assets - current	(526,416)	69,303
Decrease (increase) in other financial assets - non current	(3,752)	15
Disposal of other non-current assets	-	604,302
Acquisition of other non-current assets	(12,502)	(293,430)
<b>Net cash flows from (used in) investing activities</b>	<u>2,822,364</u>	<u>(1,226,726)</u>
<b>Cash flow from (used in) financing activities:</b>		
Increase in short-term loans	11,682,500	8,435,000
Decrease in short-term loans	(14,790,000)	(8,138,000)
Increase (decrease) in guarantee deposits received	(27,407)	10,611
Payment of lease principal	(13,670)	-
Payment for cash dividends	(1,260,253)	(1,050,210)
<b>Net cash flows from (used in) financing activities</b>	<u>(4,408,830)</u>	<u>(742,599)</u>
Net increase (decrease) in cash and cash equivalents	39,686	47,600
<b>Cash and cash equivalents at beginning of period</b>	<u>107,666</u>	<u>60,066</u>
<b>Cash and cash equivalents at end of period</b>	<u><b>\$ 147,352</b></u>	<u><b>107,666</b></u>

## Lungyen Life Service Corp.

### 2019 Appropriation of Earnings

In NT\$

Item	Amount
Balance – January 1, 2019	4,814,815,491
Add(deduct) :	
Current net income	2,302,870,983
Current change of defined benefit plan actuarial gains and losses	(1,527,344)
Adjustment of retained earnings for changes in the ownership of subsidiaries	(3,530,857)
Disposal of equity instrument investments measured at fair value through other comprehensive income, cumulative gains and losses transferred directly to retained earnings	3,261,176,764
Legal reserve (10% of total earnings)	(555,898,955)
Special reserve	(156,695,498)
Earnings available for appropriation for 2019	9,661,210,584
Appropriation:	
Cash dividends (estimate to be NT\$3.0 per share)	(1,260,252,597)
Balance – December 31, 2019	8,400,957,987

Chairman: Liu, Wei-Lung

President: Liu, Wei-Lung

Chief Accountant: Chan, Shu-Juan