

IV. FINANCIAL INFORMATION

1. Five Year Brief Balance Sheet and Income Statement

1-1 Brief Balance Sheet

Unit: NT\$1,000

Item	Year	Five Year Balance Sheet Summary (Note 1)					As of March 31, 2008 (Note 1)
		2003	2004	2005	2006	2007 (Note 2)	
Current Assets		6,583,792	4,704,714	6,466,923	7,884,320	13,351,641	15,762,768
Funds & Long-term Investments		12,788,841	13,763,713	17,664,427	19,248,498	19,277,238	19,869,297
Fixed Assets		6,833,018	9,193,812	6,954,385	6,851,322	7,644,534	7,476,968
Intangible Assets		–	–	–	73,097	90,380	113,016
Other Assets		1,634,198	1,532,699	2,549,690	2,261,529	2,273,719	2,279,962
Total Assets		27,839,849	29,194,938	33,635,425	36,318,766	42,637,512	45,502,011
Current Liabilities	Before Distribution	10,428,885	10,597,585	13,437,482	17,293,024	17,550,683	18,671,586
	After Distribution	12,825,308	13,504,197	16,816,439	20,805,742	Not yet distributed	Not yet distributed
Long-term Debt		2,200,000	2,700,000	3,320,000	1,114,994	6,700,000	7,500,000
Other Liabilities		1,404,175	1,525,528	1,704,818	1,927,574	2,132,349	2,165,054
Total Liabilities	Before Distribution	14,033,060	14,823,113	18,462,300	20,335,592	26,383,032	28,336,640
	After Distribution	16,429,483	17,729,725	21,841,257	23,848,310	Not yet distributed	Not yet distributed
Common Stock		8,584,995	9,151,604	9,151,604	9,151,604	9,151,604	9,151,604
Capital Reserve		–	–	–	–	–	–
Retained Earnings	Before Distribution	5,193,144	5,275,979	6,022,052	6,465,423	6,575,118	7,416,597
	After Distribution	2,230,112	2,369,367	2,643,095	2,952,705	Not yet distributed	Not yet distributed
Unrealized Gains (Loss) from Financial Products		–	–	–	359,191	469,191	660,335
Accumulated Adjustments		28,650	-55,758	-531	6,956	58,567	-63,165
Net Loss Not Recognized as Pension Cost		–	–	–	–	–	–
Shareholders' Equity	Before Distribution	13,806,789	14,371,825	15,173,125	15,983,174	16,254,480	17,165,371
	After Distribution	11,410,366	11,465,213	11,794,168	12,470,456	Not yet distributed	Not yet distributed

(Note 1) All the annual financial information is audited by external auditors. Information regarding the first quarter of 2008 is reviewed by external auditors.

(Note 2) As of the publication date of the Annual Report, the Annual Shareholders' Meeting has yet to decide on the earnings distribution of 2007.

1-2 Brief Income Statement

Unit: NT\$1,000 (EPS=NT\$)

Item	Year	Five Year Income Statement Summary (Note 1)					As of March 31, 2008 (Note 2)
		2003	2004	2005	2006	2007 (Note 2)	
Revenue		\$77,861,616	\$80,943,099	\$93,673,610	\$99,979,618	\$102,363,841	24,477,348
Gross Profit		23,371,944	24,559,257	28,159,084	30,242,681	31,744,297	7,487,291
Operating Profit		3,321,404	3,195,912	4,177,040	4,514,001	4,853,533	841,576
Non-Operating Income		943,919	836,926	821,494	903,954	907,093	338,199
Non-Operating Expenses		330,591	242,446	367,880	360,367	950,560	67,491
Pre-tax Income from Continuing Operations		3,934,732	3,785,908	4,630,654	5,057,588	4,810,066	1,112,284
After-tax Income from Continuing Operation		3,681,606	3,047,397	3,652,685	3,821,955	3,622,413	841,479
Accumulated Adjustments due to Changes of Accounting Principles		–	–	–	373	–	–
Net Income		3,681,606	3,047,397	3,652,685	3,822,328	3,622,413	841,479
Earnings per Share (NT\$)		4.29	3.33	3.99	4.18	3.96	0.92

(Note 1) All the annual financial information is audited by external auditors. Information regarding the first quarter of 2008 is reviewed by external auditors.

(Note 2) As of the publication date of the Annual Report, the Annual Shareholders' Meeting has yet to decide on the earnings distribution of 2007.

1-3 Auditors' Opinions in Recent Five Years

Year	Audit Firm	Name of CPAs		Auditors' Opinion
2003	PRICEWATERHOUSECOOPERS	Lai, Chun Tien	Lin, Tung Chiao	Modified Unqualified
2004	PRICEWATERHOUSECOOPERS	Lin, Tung Chiao	Chen, Mei Tzu	Modified Unqualified
2005	PRICEWATERHOUSECOOPERS	Lin, Tung Chiao	Chen, Mei Tzu	Modified Unqualified
2006	PRICEWATERHOUSECOOPERS	Lin, Tung Chiao	Chen, Mei Tzu	Modified Unqualified
2007	PRICEWATERHOUSECOOPERS	Tsai, Chin Pao	Chen, Mei Tzu	Modified Unqualified
2008 Q1	PRICEWATERHOUSECOOPERS	Tsai, Chin Pao	Chang, Ming Hui	Opinion Reserve (Note)

Note: The financial report for the first quarter of 2008 is reviewed by auditors. However, the profits and losses for the long-term equity investment and the information in Note 11 are based on the financial statements and disclosures of the investees during the same period but not reviewed by auditors. Therefore, the auditors issued Opinion Reserve

1-4 Changes of external auditors in the past five years:

Due to job rotations at PRICEWATERHOUSECOOPERS Taiwan, the external auditors were changed to Lai, Chun Tien and Lin, Tung Chiao, in 2003 and Lin, Tung Chiao and Chen, Mei Tzu in 2004. Beginning on July 1, 2007, the external auditors were changed to Tsai, Chin Pao and Chen, Mei Tzu. In 2008, the external auditors were changed to Tsai, Chin Pao and Chang, Ming Hui.

2. Five Year Financial Analysis

Year	Item	Five Year Financial Analysis Summary (Note 1)					As of March 31, 2008 (Note 1)	
		2003	2004	2005	2006	2007		
Financial Structure	Debt to Assets (%)	50.41	50.77	54.89	55.99	61.88	62.28	
	Long-term Capital to Fixed Asset (%)	234.26	185.69	265.92	249.56	300.27	329.88	
Liquidity	Current Ratio (%)	63.13	44.39	47.83	45.59	76.07	84.42	
	Quick Ratio (%)	36.30	16.56	21.23	23.82	54.22	65.69	
	Interest Coverage	50.80	58.72	61.41	74.54	56.18	28.67	
Operational Performance	Account Receivable Turnover (times) (Note 2)	-	-	-	-	-	-	
	Average Collection Days (Note 2)	-	-	-	-	-	-	
	Inventory Turnover (times)	28.25	26.48	26.08	24.42	24.00	6.03	
	Account Payable Turnover (times)	10.03	9.97	11.44	10.20	9.62	2.12	
	Average Inventory Turnover Days	13.00	14.00	14.00	15.00	15.00	15.00	
	Fixed Assets Turnover (times)	11.39	8.80	13.47	14.59	13.39	3.27	
	Total Assets Turnover (times)	2.80	2.77	2.78	2.75	2.40	0.54	
Profitability	ROA (%)	14.21	10.86	11.81	11.08	9.34	2.13	
	ROE (%)	28.86	21.63	24.73	24.54	22.47	5.08	
	Ratio to Paid-in Capital (%)	Operating Income	38.69	34.87	45.64	49.32	53.03	9.20
		Pre-tax Profit	45.83	41.37	50.60	55.26	52.56	12.15
	Net Margin (%)	4.73	3.76	3.90	3.82	3.54	3.44	
EPS (NT\$)	4.29	3.33	3.99	4.18	3.96	0.92		

Year	Item	Five Year Financial Analysis Summary (Note 1)					As of March 31, 2008 (Note 1)
		2003	2004	2005	2006	2007	
Cash Flow	Cash Flow Ratio (%)	64.47	53.15	57.50	52.59	34.67	14.56
	Cash Flow Adequacy (%)	90.85	82.50	87.68	99.63	103.09	109.71
	Cash Flow Reinvestment Ratio (%)	22.82	13.58	18.21	22.05	8.43	7.51
Leverage	Operating Leverage	2.06	2.26	2.07	2.02	1.86	2.21
	Financial Leverage	1.02	1.02	1.02	1.02	1.02	1.05

Please explain the reason for changes of financial ratios over the past two years. (Not necessary if the changes are within 20%.)

- Long-term Capital to Fixed Assets: The change was mainly due to long-term borrowing from banks in 2007.
- Current Ratio and Quick Ratio: The change was mainly due to long-term borrowing from banks in 2007 and the resulting increase in cash and short-term financial assets.
- Cash Flow Ratio and Cash Flow Reinvestment Ratio: The cash flows from operating activities went down significantly compared to 2006 because the end of 2007 was not a public holiday.

(Note 1) All the annual financial information is audited by external auditors. Information regarding the first quarter of 2008 is reviewed by external auditors.

(Note 2) Not applicable, as PCSC is a retail business.

(Note 3) The calculations of the above financial ratios are as follows:

■ Financial Structure

(1) Debt to Asset = total liabilities / total assets

(2) Long-term Capital to Fixed Asset = (shareholders' equity + long-term liabilities) / net fixed assets

■ Liquidity

(1) Current Ratio = current assets / current liabilities

(2) Quick Ratio = (current assets – inventory – prepaid expenses) / current liabilities

(3) Interest Coverage = earnings before interest and taxes / interest expenses

■ Operational Performance

(1) Average Account Receivable Turnover (including bills payable due to accounts receivable and business activities) = net sales / average account receivable (including bills payable due to accounts receivable and business activities)

(2) Average Collection Days = 365 / average account receivable turnover

(3) Inventory Turnover = cost of goods sold / average inventory

(4) Average Account Payable Turnover (including bills payable due to accounts payable and business activities) = cost of goods sold / average accounts payables (including bills payable due to accounts payable and business activities)

(5) Average Inventory Turnover Days = 365 / inventory turnover ratio

(6) Fixed Asset Turnover = net sales / net fixed assets

(7) Total Asset Turnover = net sales / total assets

■ Profitability

(1) Return on Assets [net income + interest expense × (1 – effective tax rate)] / average total assets

(2) Return on Equity = net income / average shareholders' equity

(3) Net Margin = net income / net sales

(4) Earnings per Share = (net income – preferred stock dividends) / weighted average number of shares outstanding

■ Cash Flows

(1) Cash Flow Ratio = net cash flows from operating activities / current liabilities

(2) Cash Flow Adequacy Ratio = five year sum of net cash flows from operating activities / five year (sum of capital expenditures + increase in inventory + cash dividends)

(3) Cash Flow Reinvestment Ratio = (net cash flows from operating activities – cash dividends) / (gross fixed assets + long-term investments + other assets + working capital)

■ Leverage

(1) Operating Leverage = (net sales – variable costs and expenses) / operating profit

(2) Financial Leverage = operating profit / (operating profit – interest expenses)

3. Supervisor's Report

Please refer to attached 2007 annual report disc for supervisor's report of the most recent financial year.

4. Financial Report of Recent Years

Please refer to attached 2007 annual report disc for consolidated financial statements and independent audit report of the most recent financial year.

5. Audited Consolidated Financial Statements (of parent company and subsidiaries) of Recent Years:

Please refer to attached 2007 annual report disc for audited consolidated financial statement of the most recent financial year.

6. Any financial difficulties during the most recent year and as of March 31, 2008 for the Company and its affiliates:

None.

VII. FINANCIAL STATUS, OPERATING RESULTS & RISK MANAGEMENT

1. Financial Position:

Unit: NT\$1,000

Item	Year	2007	2006	Variance	
				Difference	%
Current Assets		13,351,641	7,884,320	5,467,321	69.34%
Long-Term Investments		19,277,238	19,248,498	28,740	0.15%
Fixed Assets		7,644,534	6,851,322	793,212	11.58%
Other Assets		2,273,719	2,261,529	12,190	0.54%
Total Assets		42,637,512	36,318,766	6,318,746	17.40%
Current Liabilities		17,550,683	17,293,024	257,659	1.49%
Long-Term Liabilities		6,700,000	1,114,994	5,585,006	500.90%
Total Liabilities		26,383,032	20,335,592	6,047,440	29.74%
Common Stock		9,151,604	9,151,604	0	0.00%
Capital Reserves		—	—	—	—
Retained Earnings		6,575,118	6,465,423	109,695	1.70%
Total Shareholders' Equity		16,254,480	15,983,174	271,306	1.70%

1-1 Variance analysis for deviations over the last recent two years

- (a) Increase of current assets primarily due to borrowing of NT\$6.7 billion from banks in 2007 to improve financial structure. As a result, cash on hand and short-term financial assets increased.
 (b) Increase of long-term liabilities primarily due to the long-term borrowing of NT\$6.7 billion in 2007.

1-2. Impact to financial situations over the last two years: The aforesaid changes have no significant impact to the Company.

1-3. Future strategies

The cash flows from operating activities and the loans from financial institutions will be sufficient to meet with the needs of PCSC's future operations.

2. Operating Result:

Unit: NT\$1,000

Item	Year	2007	2006	Variance	
				Difference	%
Revenue		102,363,841	99,979,618	2,384,223	2.38%
Gross Profit		31,744,297	30,242,681	1,501,616	4.97%
Operating Expenses		26,890,764	25,728,680	1,162,084	4.52%
Operating Profits		4,853,533	4,514,001	339,532	7.52%
Non-Operating Income		907,093	903,954	3,139	0.35%
Non-Operating Expenses		950,560	360,367	590,193	163.78%
Pretax Income of Continuing Operation		4,810,066	5,057,588	-247,522	-4.89%
Income Tax		1,187,653	1,235,633	-47,980	-3.88%
Cumulative Effects of Changes in Accounting Principles		—	373	-373	-100.00%
Net Income		3,622,413	3,822,328	-199,915	-5.23%

2-1 Explanation for Variance

- (a) An increase in revenue largely due to an increase in the number of stores.
 (b) An increase in operating gross profits and operating profits primarily due to our constant development of new products and services and effective control of operating expenses.

- (c) An increase in non-operating expenses was mainly due to asset impairment loss of NT\$630 million in 2007 for both PCSC and its subsidiaries, pursuant to the conservative accounting principles stated in Taiwan's Accounting Standard Statement No. 34 for investments valued with the cost method.
- (d) An decrease in pretax income of continuing operation and net income mainly due to the impairment losses as non-operating expenses.

2-2 Factors that might impact the Company's sales and financial situations of the following year and the proposed responses: PCSC expects a continuous growth in revenue in 2008.

3. Cash Flow

Unit: NT\$1,000

Cash Balance at Beginning of Year 2007	Net Cash Inflow from Operating Activities	Net Cash Outflows Throughout the Year	Cash Surplus (Shortage)	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
3,238,414	6,084,785	(3,444,508)	5,878,691	—	—

1. Operating cash flows: Net operating inflows of approximately NT\$6.085 billion, mainly due PCSC's stable operations and profits.
2. Investing cash flows: Net investing outflows of approximately NT\$5.937 billion, mainly resulting from the acquisition of financial assets, such as bond funds and commercial papers, the purchase of fixed assets for operations and the increase in long-term equity investments.
3. Financing cash flows: Net financing inflows of approximately NT\$2.493 billion, mainly resulting from the long-term borrowing to improve PCSC's financial structure.

3-2 Remedies for Cash Shortage and Liquidity Analysis: Not applicable to PCSC

3-3 Cash Flow Analysis for Coming Year:

Unit: NT\$1,000

Cash Balance at Beginning of Year 2008	Projected Cash Inflows from Operating Activities	Projected Net Cash Outflows Throughout the Year	Expected Cash Surplus (Shortage)	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
5,878,691	7,006,010	(7,083,671)	5,801,030	—	—

- a. Operating activities: Stable growth in revenue for 2008 is expected and hence net operating cash inflows are anticipated.
- b. Investing activities: Cash outflows are mainly due to an expected increase in long-term equity investments and the purchase of fixed assets.
- c. Financing activities: Cash outflows are mainly to the expected payout of cash dividends, remunerations to directors and supervisors and repayment of corporate bonds.

4. Major Capital Expenditures & Their Impacts to Financial Situations:

4-1 Major Capital Expenditures and Sources of Capital

Unit: NT\$1,000

Project	Actual or Planned Source of Capital	Actual or Planned Date of Project Completion	Total Capital Required	Actual or Planned Capital Expenditures						
				2006	2007	2008	2009	2010	2011	2012
Investments in New Stores	Working capital and loans	Annual	6,404,290	826,513	938,528	1,080,281	889,742	889,742	889,742	889,742
P.O.S. (Point-of-Sale) Equipment	Working capital and loans	Annual	937,506	143,843	125,582	146,864	130,304	130,304	130,304	130,304
Remodeling of Existing Stores	Working capital and loans	Annual	2,720,857	113,102	260,696	501,951	461,277	461,277	461,277	461,277
Equipment Purchases/ Replacement for Stores	Working capital and loans	Annual	3,995,805	457,242	1,162,287	811,073	391,301	391,301	391,301	391,301

4-2 Estimated Benefits

a. Anticipated Increase in Sales and Gross Profits

Unit: NT\$1,000

Year	Item	Sales	Gross Profit
2008	New Store Investments	3,102,920	982,074
2009	New Store Investments	3,248,680	1,052,897
2010	New Store Investments	3,248,680	1,052,897
2011	New Store Investments	3,248,680	1,052,897
2012	New Store Investments	3,248,680	1,052,897

b. Other Potential Benefits

PCSC expects its investments in POS (Point-of-Sale) equipment and system development will bring about the following benefits:

- (1) Track changes in consumers' needs and augment the R&D capabilities in products and services;
- (2) Monitor inventory levels to enhance operational efficiency.

5. Long-Term Investments:

5-1 Long-Term Investment Policies and Plans:

From the inception of the first convenience store in Taiwan, PCSC has been setting the trends in lifestyles and prompting the development and progress of the retail industry in Taiwan. PCSC endeavours to meet with the needs of consumers and duplicate the successful stories and models. PCSC has investments in the convenience store, drugs and cosmetics store, food & beverage store, supermarket and department store in Taiwan, China, Philippines, Vietnam and Canada. In 2007, Uni-President Department Store(Hankyu), Plaza, and Cold Stone Creamery formally started operations. In 2008, PCSC will continue to establish new ventures, such as Afternoon Tea, Pet-Plus and Rakuten Ichiba. From the brick-and-mortar premises to virtual shopping platforms, from sophisticated cuisine to fashionable life necessities, we aim to establish a more extensive scope and make our interactions with consumers more close.

5-2 Reasons for Profits or Losses due to Long-Term Investments:

The major long-term investments in 2007 are as follows:

Item	Explanations	Investment in 2007	Reasons for Profits or Losses
Uni-President Department Store		NT\$210,000,000	Still in the early stage of operations. Businesses not yet stable and yet to break-even
Tong-Ho Development Corp.		NT\$269,055,000	Business model yet to be stabilised so still in losses
PCSC (China) Limited.		NT\$518,457,000	Investees yet to stabilize their business models so still in losses
Mech-President Corp.		NT\$87,084,000	Drastic rises in oil prices detrimental to profitability
President Chain Store (BVI) Holdings Corp.		NT\$65,252,000	Investees yet to stabilize their business models so still in losses

6. Policies, Organizational Structure and Issues Concerning Risk Management

6-1 Policies and Organizational Structure of Risk Management

PCSC endeavours to maintain a comprehensive risk management system and manages the risks of the organization as a whole (including subsidiaries). The Board, managers and employees of all levels work together in risk control and management.

In addition to the observations of all the relevant regulations, PCSC identifies, analyzes, measures, monitors, controls, reports and improves all the potential risks throughout operating activities regarding the characteristics of influence of such risks. This is to assure the achievement of PCSC's strategic goals and the effective maintenance and control of relevant potential risks.

The major risk management units and management execution teams of the Company are as follows:

- a. Strategic and Operational Risks: Each business unit and subsidiary is responsible for planning and risk assessment for any new investment and operational decisions. Strategic Planning Group will conduct key performance indicator analysis and track performance in the monthly meeting with companies within the business group, in order to align the strategic plan and performance of subsidiaries with their visions and strategic targets.
- b. Financial Risks, Liquidity Risks and Credit Risks: The Finance Group defines several sets of risk management strategies, procedures and indicators by referring to the changes in regulations, policies and markets, to periodically analyze all the relevant risks and take responding measures accordingly, so as to mitigate the potential risks for the Company as a whole.
- c. Market Risks: All the business units analyze and assess market risks of their responsible functions and businesses by referring to the changes in key policies, regulations and technologies, so as to come up with appropriate responding measures to mitigate the potential management risks going forward. In addition, PCSC has established a cross-function regulation identification team. The team meets on a regular basis to constantly update the information regarding the changes in regulations in order to devise responding measures. Meanwhile, a Crisis Handling Team, composed of division supervisors, has been established to monitor, manage and handle any potential or existing market risks and crises.
- d. The internal Audit Office, through risk assessments and regulatory reviews, defines the annual audit plans and self-inspection procedures and methods. The implementations of audit plans and self-inspections are to constantly monitor and control all kinds of potential risks. The results shall be presented to the Board of Directors on a periodical basis.

6-2 Risk Assessment and Analysis

- a. Impacts to the Company's Profits and Losses from Changes in Interest Rates, Foreign Exchange Rates and Inflation; Proposed Responding Measures:

- (1) Interest rate fluctuations

PCSC's exposure to interest rate risks is mainly due to interest expenses from long-term and short-term debts required to finance the expansion of businesses. However, as a cash sales company, PCSC is able to quickly repay debts and as such, interest rate fluctuations do not have significant impact to PCSC's profits or losses.

- (2) Foreign exchange rate fluctuations

PCSC's trading currency is mainly in NT Dollars and imported goods account for a very small percentage of total sales. Therefore, foreign exchange rate fluctuations do not have significant impact to PCSC's profits or losses.

- (3) Inflation

The inflation over the recent years has no significant impact to PCSC's profits or losses.

- b. Engagement in Highly Risky or Highly Leveraged Investments, Lending Activities, Endorsements or Trading of Derivatives; Reasons for Profits or Losses of Such Activities and Proposed Responding Measures:

- (1) Company policy

PCSC focuses on the retail related businesses and has not engaged in highly risky or highly leveraged investments. However, in order to effectively control and manage business-related activities, PCSC has structured a set of internal management and operational procedures on the basis of the relevant regulations from the Securities and Futures Bureau. These requirements and procedures include "Procedures for Lending Funds to Others", "Procedures for Acquisitions or Disposals of Assets" and "Procedures for Endorsements". In accordance with Standards for Publicly Held Companies to Internal Control Systems, PCSC's Internal Audit Office has defined a set of risk management and assessment procedures.

- (2) The Status of Loans to Others, Endorsements and Trading of Derivatives; Reasons for Profits and Losses of Such Activities:

(a) Loans to others:

Unit: NT\$1,000

Receipt	2006				Interest Rate	Interest Income
	Highest Balance		Balance at the End of the Period			
	Period of Loan	Amount				
Uni-President Yellow Hat Corp.	April 2006~May 2006	\$ 20,000	\$ —	2.82%	\$ 45	
21 Century Enterprise Co. Ltd.	January 2006~February 2006	5,000	—	2.51%~2.52%	19	
			\$ —		\$ 64	

Note: PCSC provided no loans to others in 2007 and the first quarter of 2008.

(b) Endorsements:

PCSC offers reasonable endorsements for credit facilities to its investees that require funding for their operations. Below are the details of PCSC's endorsements to its investees:

Recipient	Relations	Outstanding Balance of Endorsement in 2007	Outstanding Balance of Endorsement as of March 31, 2008
Retail Support International Corp.	Business relations	NT\$600,000,000	NT\$ 600,000,000
Uni-President Department Store	Subsidiary	NT\$177,349,000	NT\$ 424,931,000
Wisdom Distribution Service Corp.	Subsidiary	NT\$50,000,000	NT\$ 50,000,000
President Yilan Art & Culture Corp.	Subsidiary	NT\$15,000,000	NT\$15,000,000
President Information Corp.	Subsidiary	NT\$ 8,000,000	—
Wuhan Uni-President Oven Fresh Bakery Co. Ltd.	Subsidiary of subsidiary	USD 3,500,000	USD 3,500,000
Mech-President Corp.	Subsidiary	USD 3,000,000	USD 3,000,000
Philippine Seven Corp.	Subsidiary of subsidiary	USD 4,000,000	USD 4,000,000

Note: The total value of PCSC's endorsement is capped at 50% of its net value and at 20% for endorsement to a single company.

(c) Derivatives:

The Company may see fluctuations of the future cash flows of the FRNs (floating rate notes) it issued, due to the changes of the market interest rates risks. To hedge against such market risks, the Company has entered an interest-rate swap contract.

Unit: NT\$1,000

Hedged Item	Financial instrument assigned as hedging tools	Assigned hedging tools		Expected Cashflow period	Recognition into Income Statement
		Fair value			
		Dec 31, 2007	Mar 31, 2008		
Corporate Bonds Payable	Interests swap	(\$5,070)	(\$5,117)	June 2003~June 2008	2006~2008

(3) Proposed Responding Measures:

Finance Department is responsible for the monitor and management of trading positions of derivatives. Market prices are regularly monitored and assessed. If any abnormality regarding trading or profits/losses is identified, necessary measures will be taken and reports will be made to the Board of Directors immediately. In addition, PCSC periodically reviews the performance of derivative trading to see whether the performance is in line with the defined strategy and the level of risks is still within the bearable range.

c. Research & Development Plans and Projected Investments:

(1) ETC Value-Added Services:

To enlarge the leading gap from other convenience stores, PCSC is planning to introduce ETC value added services in 2008 at its stores by selling tickets for transportations and payment services. This is aiming to enhance the convenience of 7-ELEVEN.

(2) icash Bonus Point Scheme:

Since the launch of icash in 2004, 7-ELEVEN has successfully made life even easier for consumers because they can shop without coins and check out quickly. By the end of 2007, the number of icash cards issued reached 5 million. To effectively enhance the loyalty of users and make cardholders feel proud, PCSC is planning to introduce icash Bonus Point Scheme in 2008.

(3) Value-Added Virtual Platform of Game Card:

Traditionally, game cards are printed out in the physical form for transactions. However, PCSC decided to ride on the trend of the virtual world and process the game cards on a virtual platform. This will save manpower at stores by eliminating the process for ordering and reducing the inventory levels of high-value game cards. For suppliers, the virtual distribution channel reduces the entry barrier of products. This will help PCSC to lock-in the marketing resources of key industry players so as to continue to speed up our growth momentum and enhance our competitiveness.

(4) PCSC expects to invest a total of NT\$460,218,000 in the research and development of new systems in 2008.

d. Financial Impacts from Major Government Policies and Statutory Changes, Domestic and Overseas; Proposed Responding Measures:

PCSC has taken appropriate measures in light of government policies and statutory changes, domestic and overseas, over the recent years. Therefore, the company has not experienced any major impacts to its financial situations. Meanwhile, PCSC has established a cross-function regulations identification team to constantly update the information of regulatory changes.

e. Financial Impacts from Changes in Technology and Industry Environment and Responding Measures:

We constantly keep abreast of the latest developments of technologies highly relevant to consumers, such as e-commerce, telecommunications and consumer finance. None of the major changes in technologies over the recent years have any significant implications to PCSC's financial situations.

f. Impacts on Crisis Management due to Changes of Corporate Images and Responding Measures

PCSC strives to provide the general public with the most assuring, convenient and high-quality goods and services. The Company is proactively promoting its quality control policies, a set of standards higher than the national requirements, to ensure the protection of consumers. PCSC has been playing its role as a corporate citizen and pursuing its own sustainable developments with active involvements in social welfare and environmental protection campaigns. In 2005 and 2006, PCSC was awarded Global Views Monthly's Corporate Social Responsibility Award. In March 2007, PCSC was again awarded by Commonwealth Magazine in its first-year Corporate Citizenship Award, by outperforming 1,100 enterprises competing for the same recognition. PCSC was also the only company that won the award in the retail, distribution and department store industry. In October 2007, PCSC ranked the third in the list of the 10 Most Admired Companies in Taiwan according to Commonwealth Magazine, following only TSMC and Foxconn and performing the best in the service industry. In addition, PCSC is fully prepared to deal with accidents, natural or man-made disasters (such as typhoons, earthquakes, SARS, fires and employee injury or death). This means that we are experienced and we are able to mobilize quickly. In the event of major crises, our headquarters can immediately assemble a cross-function emergency team to promptly assess the situation, find the best solutions and work out the best way to minimize losses.

g. Possible benefits and risks from mergers and acquisitions and proposed responding measures: None.

h. Possible benefits, risks from the expansion of factories and proposed responding measures: None.

i. Possible risks due to a concentration of purchasing and distribution and proposed responding measures: None.

j. Possible effects and risks due to massive transfers or change-hands of shares by directors, supervisors or major shareholders with over 10% stake in the Company and proposed responding measures: None.

k. Possible effects and risks due to change of control and proposed responding measures: None.

l. Litigations or Non-Contentious Matters

Any major litigations, non-contentious matters or administrative disputes that involve the Company, the Company's directors, supervisors, presidents, responsible parties, major shareholders with over 10% stake, or affiliated companies should be disclosed as long as the outcome may have significant impacts to shareholders' equity or share prices, no matter whether such litigations, non-contentious matters or administrative disputes are still pending or settled. The disclosure should include the factual matters of disputes, underlying monetary values, date of lawsuit originations, main parties involved and measures taken in response until the publication date of the annual report: None.

m. Other major risks and proposed responding measures: None.

7. Other Supplements: None

VIII. SPECIFIC NOTES

1. Affiliates Information:

1-1 Consolidated Business Report of Affiliates, 2007: Please refer to the attached 2007 annual report disc.

1-2 Affiliation Report, 2007: Please refer to the attached 2007 annual report disc.

2. Private Placement Securities: None (up to the published date of this Annual Report)

3. Balance of PCSC Securities Acquired, Disposed of and Held by Subsidiaries (in the most recent year and up to the published date of this Annual Report): None

4. Other Necessary Supplements: None

5. Clause Described in Part 2, Section 2, Article 36 of the Securities and Exchange Act:

Up to the published date of this Annual Report, PCSC has not experienced any event as described in Part 2, Section 2, Article 36 of the Securities Exchange Act that has major impacts to shareholders' equity or share prices.

IX. ADDITIONAL DISCLOSURES

1. Key Performance Indicators

	2007	2006
Net operating margin (%)	4.74%	4.51%
Net profit margin(%)	3.54%	3.82%
EPS(NT\$)	3.96	4.18
ROE(%)	22.47%	24.54%
Inventory turnover(times)	24.00 (times)	24.42 (times)

2. Estimation Bases for the Valuation Allowance on the Balance Sheet

2-1 Allowance for doubtful accounts

Appropriate provisions are allocated in accordance with the recovery possibility of accounts receivables and other receivables based on their balances at the end of the period.

2-2 Inventory

PCSC records the inventory at the actual costs. Retail inventory method is applied. Appropriate provisions of allowances for losses have been allocated for idle inventory or the inventory that may be obsolete. The losses due to idle inventory are recognized as losses of the period.

2-3 Financial assets

a. Financial assets whose changes in fair values are recognized in the income statements

(1) Trade date accounting is practiced on equities. Settlement date accounting is practiced on beneficiary certificates. Financial assets are measured in terms of fair values for original recognition.

(2) Financial assets and liabilities whose changes in fair value are recognized in the income statements are measured in terms of fair values and their value changes are recognized as period gains or losses. The fair values of listed shares are measured by the closing prices on the balance sheet date in open market. The fair values of open-end funds are measured by the net asset of the funds on the balance sheet date.

b. Available-for-sale financial assets

(1) Trade date accounting is practiced on equities. For original recognitions, the financial assets are measured by their fair values plus the transaction costs at acquisition or issuing.

(2) Available-for-sale financial assets are recognized at their fair values and the changes in their values are recognized as adjustments to shareholders' equities. The fair values of listed shares are measured by the closing price in the open market on the balance sheet date.

(3) Impairments are recognized when there is objective evidence of impairment. When the amount of the impairment decreases afterwards, the decrease in equity product impairments are recognized as adjustments to shareholders' equities.

c. Bond investments with no liquid markets

(1) Settlement date accounting is practiced. During original recognition, financial assets are measured by their fair values (buying cost) plus transaction costs of acquisition or issuing.

(2) Bond investments with no liquid markets are measured by cost after amortizations.

(3) Impairments are recognized when there is objective evidence of impairment. When the amount of the impairment decreases afterwards and the decrease is evidently related to the events that occur after the impairment, the company shall reverse the impairment loss and recognize it as period gains (losses). The reversal shall not render the book value larger than the post-amortization costs without the recognition of the impairment.

d. Financial assets valued at costs

(1) Trade date accounting is practiced. For original recognition, financial assets are measured by their fair values (buying cost) plus transaction costs of acquisition or issuing.

(2) Impairments are recognized when there is objective evidence of impairment. The amount of

impairment is irreversible.

e. Derivatives

(1) For trading purposes:

The values of the option products are recognized by their fair values on trade date. The values of non-option products are recognized as zero as their fair values on trade date. If the fair values are based on the balance sheet date, the changes in fair values should be recognized in both balance sheet and income statement.

(2) For hedging purposes:

When the financial products qualify for hedge accounting, the changes in fair values should be recognized as profits or losses of the period based on their hedging relations by netting off the fair values (median values) of hedging tools and hedged items. The accounting treatments are as follows:

(a) Fair Value Hedging:

When hedging instruments are measured by their fair values or when their book values are adjusted to exchange rate fluctuations, the resulting gains (losses) are immediately recognized as period gains (losses). If the hedged items produce gains or loss due to hedged risks, the book values of the hedged items should be adjusted and the resulting gains (losses) are immediately recognized as period gains (losses).

(b) Cash Flow Hedging:

The gains (losses) of the hedging instruments are recognized as adjustments to shareholders' equities.

f. Long-term Investments under the equity method

(1) Long-term investments in which the Company owns at least 20% of the voting rights of the investee or have significant influence over the investee are accounted for under the equity method. If the acquisition cost exceeds the Company's share of the investee's net book value on the date of acquisition, the surplus is recognized as goodwill. Impairment tests are carried out annually. Recovery of impairment loss on goodwill during the previous year is not allowed. For the investees that the Company owns over 50% of the voting rights or have control over, they should be accounted for under the equity method and be included in the consolidated statements for the mid-year and year-end reports.

(2) For the long-term Investments in which the Company exercises significant influence but has no control over, the recognition of investment losses shall stop when the book balance of investments in the investees and the advanced amounts to the investees reaches zero. However, if the Company has endorsement to the investee or intends to continue supporting the investee, investment losses will be recognized in proportion to stockholding ratio.

(3) For foreign investments accounted for under the equity method, the Company's proportionate share of the foreign investee company's cumulative translation adjustment resulting from translating the foreign investee company's financial statements into New Taiwan dollars is recognized by the Company and is included in a cumulative translation adjustment account in the Company's shareholders' equity.

3. Target and Methods for Hedge Accounting

3-1 For hedging purposes:

When the financial products qualify for hedge accounting, the changes in fair values should be

recognized as profits or losses of the period based on their hedging relations by netting off the values of hedging tools and hedged items. The accounting treatments are as follows:

a. Fair Value Hedging:

When hedging instruments are measured by their fair values or when their book values are adjusted to exchange rate fluctuations, the resulting gains (losses) are immediately recognized as period gains (losses). If the hedged items produce gains or loss due to hedged risks, the book values of the hedged items should be adjusted and the resulting gains (losses) are immediately recognized as period gains (losses).

b. Cash Flow Hedging:

The gains (losses) of the hedging instruments are recognized as adjustments to shareholders' equities.

3-2 The Company may see fluctuations of the future cash flows of the FRNs (floating rate notes) it issued, due to the changes of the market interest rates risks. To hedge against such market risks, the Company has entered an interest-rate swap contract as follows.

Hedged Items	Assigned hedging tools		Cash flow period	Incurred loss recognition into income statement	
	Financial instruments assigned as hedging tools	Fair value			
		Dec 31, 2007			Dec 31, 2006
Corporate bonds payable	Interests swaps	(\$ 5,070)	(\$ 14,994)	June 2003~June 2008 2006 ~2008	

Items	Dec 31, 2007	Dec 31, 2006
Adjustments to Shareholder's Equity	\$ 9,924	(\$ 14,994)
Translation of Shareholder's Equity to Gains (Losses) of the Period	\$ —	\$ —
Translation of Shareholder's Equity to Non-Financial Assets (Liabilities)	\$ —	\$ —

4. Certificates Issued by Competent Authorities to Personnel Relevant to Financial Information Transparency

4-1 Number of employees who own professional certificates:

Certified Internal Auditor (CIA): one
Enterprise Internal Control Basic Ability Exam: five

4-2 Professional training of employees:

Accounting supervisors: Openly Listed and Traded Company Financial and Accounting Administrator Professional Certificate Course (43 hrs)

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Overseas Stock Exchange Information / None
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