

## IV. FUND RAISING

### I. Capital and Shares

#### I-1 Source of Capital:

a. Shared Issued:

Unit: NT\$; Shares / As of April 25, 2007

Month/Year	Par Value	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source of Capital	Capital Expansion by Assets other than Cash	Document No. and Dates of Approval
July/2002	10	900,000,000	9,000,000,000	772,031,899	7,720,318,990	Capitalization of profit	None	July 19, 2002 (91) Tai-Tsai-Cheng (1)No. 090140565
July/2003	10	900,000,000	9,000,000,000	858,499,471	8,584,994,710	Capitalization of profit	None	July 17, 2003 (92) Tai-Tsai-Cheng (1)No. 0920132220
August/2004	10	960,000,000	9,600,000,000	915,160,436	9,151,604,360	Capitalization of profit	None	July 20, 2004Chin-Kuan-Cheng-Yi-Tse No. 0930132295

Note: PCSC's initial paid-in capital in June 1987 was NT\$100,000,000. After the conversion of retained earnings into capital over the years, PCSC's paid-in capital is NT\$ 9,151,604,360 as of April 25, 2007.

b. Capital and Shares

Unit: Shares

Type of Stock	Authorized Capital			Remark
	Outstanding Shares	Non-Issued	Total	
Common Stock, Inscribed	915,160,436	44,839,564	960,000,000	Publicly Traded

#### I-2 Shareholder Structure

Unit: Shares, / As of April 17, 2007

Shareholders	Quantity	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Individuals	Foreign Institutions & Individuals	Total
No. of Shareholders		2	4	77	18,458	350	18,891
Shareholding		1,426,301	20,533	482,631,954	39,345,153	391,736,495	915,160,436
Holding Percentage		0.16%	0.00%	52.74%	4.30%	42.80%	100%

#### I-3 Distribution Profile of Shareholder Ownership

NT\$10 per share (par) /As of April 17, 2007

Individual Shareholding (Unit: Shares)	No. of Shareholders	Total Shareholding (Unit: Shares)	Holding Percentage
1 - 999	10,624	2,556,918	0.28%
1,000 - 5,000	6,451	13,314,029	1.45%
5,001 - 10,000	864	6,007,172	0.66%
10,001 - 15,000	273	3,260,703	0.36%
15,001 - 20,000	140	2,436,145	0.27%
20,001 - 30,000	113	2,793,986	0.31%
30,001 - 50,000	90	3,411,673	0.37%
50,001 - 100,000	81	5,947,738	0.65%
100,001 - 200,000	68	9,883,630	1.08%
200,001 - 400,000	36	10,255,336	1.12%
400,001 - 600,000	25	12,461,346	1.36%
600,001 - 800,000	20	13,943,125	1.52%
800,001 - 1,000,000	18	15,819,230	1.73%
Over 1,000,001	88	813,069,405	88.84%
Total	18,891	915,160,436	100.00%

**I-4 Major Shareholders**

As of April 17, 2007

Shareholders	Shares	Shareholding (Shares)	Holding Percentage
Uni-President Enterprise Corp.		415,489,816	45.40%
HSBC in custody of Matthews International Fund		43,393,000	4.74%
JP Morgan Chase Bank in custody of Templeton Developing Markets Trust		23,210,164	2.54%
Taiwan Post Co., Ltd.		16,789,404	1.84%
Nan Shan Life Insurance		16,241,814	1.77%
Public Service Pension Fund		15,224,252	1.66%
J.P.Morgan Trustee and Depositary Company Limited as Trustee of Standard Life Pacific Basin Trust		13,375,000	1.46%
JP Morgan Chase Bank, Taipei Branch, in custody of Oppenheimer Developing Markets Fund		12,892,074	1.41%
JP Morgan Chase Bank in custody of Templeton Emerging Markets Series		12,627,010	1.38%
Central Trust of China in custody of Mondrian Emerging Markets Fund		11,539,000	1.26%

**I-5 Share Prices, Net Value, Earnings, Dividends and Relevant Share Information for last two years**

Unit: NT\$

Year	Item	2005	2006	As of March 31, 2007	
Market Price per Share	Highest	69.20	81.40	82.00	
	Lowest	49.90	64.50	73.90	
	Average	58.50	72.20	77.80	
Net Value per Share	Before Distribution	16.58	17.46	18.40	
	After Distribution	16.58	(Note)	—	
Earnings per Share	Weighted Average Shares (Shares)	915,160,436	915,160,436	915,160,436	
	Earning per Share (Undiluted)	3.99	4.18	0.95	
	Earning per Share (Diluted)	3.99	(Note)	—	
Dividend per Share	Cash Dividends	3.40/Share	(Note)	—	
	Stocks Dividends	Dividends from Retained Earnings	—	(Note)	—
		Dividend from Capital Surplus	—	(Note)	—
	Accumulated undistributed dividends	—	(Note)	—	
Return on Investment	Price/Earning Ratio	14.66	17.27	—	
	Price/Dividend Ratio	17.21	(Note)	—	
	Cash Dividend Yield Rate	5.81%	(Note)	—	

Note: As of March 31, 2007, the shareholders' meeting has not yet decided on the distribution of earnings in 2006.

**I-6 Dividend Policy and Implementation Status**

## a. Dividend Policy:

The total dividend is net profit after taxes, previous losses and 10% legal reserve, adjusted by any special reserve in shareholders' equity and retained earnings from the previous year. Shareholders' equity and retained earnings carried over are to be distributed along with the current year's net profits. Earnings distributions for the year along with undistributed earnings from the previous year are considered accumulated distributable earnings whose distribution is carried out by the Board of Directors in consideration of industry conditions, the Company's future operations and investment plans. The proposal to distribute earnings shall take effect upon the approval from the shareholders' meeting.

The shareholders' meeting shall determine the distribution percentage of accumulated distributable earnings based on the following principles:

- (1) Directors' and supervisors' remunerations: 1% of net profits of the year
- (2) Employees' bonus: no less than 0.2% of net profit of the year
- (3) Shareholders' dividends and bonuses: after deducting (1) and (2) from the accumulated distributable earnings, a range between 80% and 100% may be distributed. However, a percentage between 50% and 100% of such distributable earnings should be paid out as cash dividends, with the remainder booked as undistributed earnings.

b. The proposal to distribute earnings of 2006 by the Board of Directors submitted to the 2007 Annual Shareholders' Meeting for approval. The proposal finalized by the Board of Directors on March 14, 2007 is as follows:

## Cash dividends:

It is planned that a total of NT\$3,203,061,526 (NT\$3.5 per share) shall be distributed from the accumulated distributable earnings of 2006. After the approval from the Annual Shareholders' Meeting, the Board of Directors shall propose a base date for the distribution of dividends.

### I-7 Impact to the Company's Operating Performance and Earnings per Share from the Stock dividend Proposed by the Shareholders' Meeting:

According to Guidelines for Disclosure of Financial Forecasts by Public Companies, PCSC is not required to release its 2006 financial forecasts. Therefore, under the decree of Tai-tsai-cheng (1) Letter No. 00371 issued on February 1, 2000, PCSC is not required to disclose this information.

### I-8 Employees' Bonus and Remuneration to Directors and Supervisors:

a. Percentage or range of employees' bonuses and compensations to directors and supervisors stated in Articles of Incorporation:

According to PCSC's Articles of Incorporation, the dividend pool is net profit after taxes, previous losses and 10% legal reserve. Meanwhile, any deduction of shareholders' equity during the period should be made up with the same amount of special retained earnings. If the deduction of shareholders' equity is reversed at any later stage, the reverse amount should be included in the dividend pool of that year. Any earnings this year available for distribution combined with undistributed earnings from the previous year is defined as accumulated distributable earnings. The Board of Directors shall devise an earnings distribution proposal by taking into considerations the industry conditions, PCSC's future operations and investment plans. The distribution proposal will take effect upon approval from the Annual Shareholders' Meeting. The remunerations of directors and supervisors are set at 1% of the total earnings and the employees' bonus shall be no less than 0.2% of the total earnings of that year.

b. The Board of Directors has come up with the following details regarding the distributions of earnings of 2006 as employees' bonus and directors' and supervisors' remunerations.

(1) Employees' bonus: NT\$275,250,128; directors' and supervisors' remunerations: NT\$34,406,266.

(2) Intended distributions of stock dividends to employees and the corresponding percentage of the retained earnings to be converted into capital: Employees' bonus is paid in cash.

(3) EPS before employees' bonus and directors' and supervisors' remunerations is NT\$4.18. EPS after employee's bonus and directors' and supervisors' remunerations is NT\$3.84. °

c. Distributions of earnings in 2005 as employees' bonus and remunerations for directors and supervisors:

Distributions of earnings in 2005 as employees' bonus and remunerations for directors and supervisors are as follows: Actual Profit distribution of 2005 earnings

	Meeting and the Board of Directors
(1) Distributions (NT\$1,000)	
Employees' Bonus	\$ 200,559
Directors' and Supervisors' remunerations	\$ 66,853
(2) Earnings per Share (Unit: NT\$)	
EPS	\$ 3.99
EPS after bonus and remunerations	\$ 3.70

### I-9 Share Buyback: None

## 2. Status of Corporate Bonds, Preference Shares, GDR, Employee Stock Option Plan, Mergers, Acquisitions and Spin-offs

### 2-1 Corporate Bonds

As of March 31, 2007

Type of Corporate Bonds	PCSC
	Second Issue of Secured Corporate Bond
Issuing Date	June 10, 2003 ~ June 13, 2003
Par Value	NT\$1 million
Issuing Location	—
Offering Price	Issued at Par
Total Amount	Total amount of NT\$1.5 billion, divided into classes of Aa, Ab, Ac, Ad, Ba, Bb and Bc due to different issuance dates and prerequisites; the amount for each issuance of Aa, Ab, Ac, Ad is NT\$ 200 million, Issuance of Ba, Bb is NT\$200 million each, Issuance of Bc is NT\$300 million.
Coupon Rate	Issue A: 1.4%; Issue B: 4% minus 6-month LIBOR or 4% minus 180-day commercial paper interest rate, adjusted every six month

Type of Corporate Bonds	PCSC Second Issue of Secured Corporate Bond	
Term	The terms of each class are all 5 years. The terms of individual classes are as follows: Issue Aa, Ba: June 10, 2003 to June 10, 2008 Issue Ab, Bb: June 11, 2003 to June 11, 2008 Issue Ac, Bc: June 12, 2003 to June 12, 2008 Issue Ad: June 13, 2003 to June 13, 2008	
Guarantor	Class A: Taipei Fubon Bank; Class B: Chunglun Branch of Bank of Taiwan	
Trustee	Trust Department, Chinatrust Commercial Bank	
Underwriter	None	
Legal Counsel	Su, Yan Wei, Esq.	
Auditors	PRICEWATERHOUSECOOPERS Lai, Chun Tien; Lin, Tung Chiao	
Repayment	Issue A: automatically repaid at 3rd, 4th and 5th year terms at 25%, 25% and 50%, respectively Issue B: repaid in full at maturity	
Outstanding Principal	NT\$1.3 billion (Note)	
Redemption or Early Repayment Clause	None	
Covenants	None	
Credit Rating Agency, Date of Credit Ratings, Credit Ratings of the Bonds	None	
Other Rights to Bondholders	Amount of Converted (Exchanged or Subscribed) Common Shares, GDR or Other Securities as of Annual Report Publishing Date	None
	Issue and Conversion Rights (Exchanges or Subscription Rights)	None
Dilution Effects and Other Adverse Effects to Existing Shareholders due to Bond Issuance, Conversion, Exchange or Subscription of Shares	None	
Custodian	None	

Note: In June 2006, PCSC repaid NT\$200 million for its second issue of secured corporate bond.

## 2-2 Preference Shares: None

## 2-3 Global Depository Receipts: None

## 2-4 Employee Stock Option Plan: None

## 2-5 Issuance of New Shares to Merge and Acquire Other Companies: None

## 3. Status of Capital Utilization Plan

### 3-1 Capital Projection

As of March 31, 2007, any incomplete share issuance or private placement or any completed share issuance or private placement over the past three years but not yet reporting any benefits: None

### 3-2 Status of implementation:

As of March 31, 2007, analysis of the purposes of each capital investment project and comparison of the implementations and the original benefits: None

# V. OPERATIONAL HIGHLIGHTS

## I. Business Activities

### I-I Business Scope

#### a. Officially Registered Business Items

(1) F203020	Tobacco & alcohol retails	(15) F216010	Retails of photo and film equipment	(28) JZ99050	Agency services
(2) F206020	Retails of daily products	(16) JZ99030	Photography	(29) IZ99990	Other services (agent for school enrollments, applications, ticket sales, receiving goods on behalf of customers and bill collections on behalf of other businesses)
(3) F203010	Retails of food, groceries and beverages	(17) F204110	Retails of cloth, clothes, shoes, hats, umbrellas and accessories		
(4) F208040	Retails of cosmetics				
(5) F399990	Other retails	(18) A102060	Retails of staple food	(30) F401161	Importing of tobacco
(6) IZ01010	Photocopying	(19) F213010	Retails of home appliances	(31) F401171	Importing of alcohol
(7) F201070	Retails of flowers	(20) F208031	Retails of medical equipment	(32) Any business activities unless otherwise restricted by law	
(8) F209060	Retails of educational, musical and entertainment products	(21) F205040	Retail of furniture, beds, kitchenware, decorative items	(33) F301010	Department stores
(9) JE01010	Leasing	(22) F207030	Retails of cleaning products	(34) F301020	Supermarkets
(10) IE01010	Distribution of telecommunications subscriptions	(23) F401010	International trading	(35) F399010	Convenience stores
(11) I401010	Advertising services	(24) JA01010	Automotive repair services	(36) F501030	Beverage stores
(12) F207050	Retails of fertilizers	(25) F214030	Retails of automobile and motorcycle accessories and merchandise	(37) F501060	Restaurants
(13) F210010	Retails of watches and clocks	(26) G202010	Parking lot operations	(38) G902011	Type II telecommunications business
(14) F210020	Retails of glasses	(27) IZ14011	Lottery tickets		

#### b. Sales Breakdown by Categories in Year 2005 and 2006

Unit: NT\$1,000

Product Category	Sales & Percentages			
	2005		2006	
	Amount	%	Amount	%
Food Services	11,018,445	12.15%	12,424,522	12.85%
Publications	13,167,302	14.51%	13,587,715	14.05%
Beverages	30,169,430	33.26%	32,767,871	33.89%
Non-Food	24,353,299	26.85%	25,538,104	26.41%
Ordinary Food	11,651,670	12.84%	12,051,768	12.46%
Others	356,257	0.39%	315,743	0.34%
Gross Sales	90,716,403	100.00%	96,685,723	100.00%
Sales Discounts	(44,756)		(56,982)	
Net Sales	90,671,647		96,628,741	
Other Operating Revenue	3,001,963		3,350,877	
Total Operating Revenue	93,673,610		99,979,618	

### c. Present and Future Products and Services

In 2006, 7-ELEVEN aimed to create convenience in every aspect of consumers' lives. We seek to "immerse into the customers" scenarios in order to create brand value' by constantly introducing new life styles and joys to customers as well as continuously innovating in products and services.

In order to promote to the consumers in Taiwan the concept of "Nature & Health" under the brand name LOHAS, we organized Simply Life Festival, 7-ELEVEN New Life Movement workshops and MY LOHAS magazine. This prompted an enthusiastic response in the market. Also, we developed a series of products in the theme of "Nature & Health", such as organic dark chocolate and marshmallows with added collagen, Vitamins A and C. These products became extremely popular with consumers and generated impressive sales.

In order to allow customers to rest assured of the quality and healthiness of our fresh food products, we continued to advocate the concept of "additives-free". We guarantee our customers that the 180 fresh food products at 7-ELEVEN are free from artificial flavorings and preservatives. It had been 10 years since the debut of 7-ELEVEN Rice Balls. Its tenth anniversary campaign saw sales of Rice Balls soar and hit record high in terms of average sales per store. The TV commercial, "Play" was rated by Brain magazine as one of the most popular TV commercials in 2006 in Taiwan. It also won a golden Timesaward in corporate image as it enhanced the overall image and reputation of the corporate. In addition, the lunch box series, already popular with consumers, continued to upgrade its quality and expand its offerings. The year 2006 version of Fancy Lake Railway Lunch Box and Kyushu Chicken Lunch Box both generated brisk sales.

Slurpee, once well known to everybody, made its comeback in August 2006 to refresh the fond memories of customers and sold over 3.7 millions cups by the end of 2006. In addition to its contribution to sales, Slurpee became the talk of town among consumers. It is yet another proof to customers that 7-ELEVEN's long-standing efforts in the Taiwanese market. It also introduced the ibon digital services with eight features, i.e. integrated mobile office, fee payments, insurance, travel, tickets, exchange, digitalization and information, to provide super convenience to consumers and create the absolute competitive advantages for PCSC.

Since the first integrated marketing campaign in 2005, the new marketing campaigns, one after another, have become one of 7-ELEVEN's value added services that consumers watch out for. They also successfully hearten the relationship between stores and customers. Activities such as Hello Kitty Pin, Doraemon Magnet and Doraemon Characters in 2006 created strong sales, generated common topics among customers and a craze for collections. This successful marketing event brought 7-ELEVEN another MCEI Marketing Excellence Award. Meanwhile, to promote 7-ELEVEN's mascot, "Open", we developed a series of products such as "Open" cereal milk and popcorn. The balloons of "Open" could also be seen in New Year Eve Parade. Through powerful promotions and PR campaigns on TV, Yahoo website and radio, it has created high visibility on media and shortened the distance between 7-ELEVEN and its customers.

Looking forward 2007, we will continue to step up the development of products that already have solid grounds and hold great potentials in order to create more sales for our stores. These products include city cafe, Slurpee, lunch boxes and fresh food. Meanwhile, we will seek to expand the service contents of ibon in pre-ordering and customer services, so as to provide consumers diverse, refined and convenient lifestyle choices.

## I-2 Industry Overview

The credit card debt remained a negative factor to private consumption in 2006. The overall market size in the retail industry stood at NT\$3,158.8 billion in 2006, up only by 1.85% from 2005. General merchandise retail sales reached NT\$733.5 billion, up by 3.16% from 2005. In contrast, the growth of revenue reported by PCSC was as high as 6.73%, another great record.

As the national income has been on the rise in Taiwan, the focus of consumption has shifted to food and clothing to the pursuit of better living quality and more convenient lifestyle. With a view to the changing consumption patterns, PCSC has been constantly adjusting its product mix in order to better cater to consumers' needs. At the end of August 2006, the ibon kiosk was introduced with eight features (including integrated mobile office, ticket ordering, bill payments and insurance), etc. This comprehensive digital service platform aims to provide consumers a quality and convenient life.

Looking forward, PCSC will continue to adjust its product mix and business model in 2007, so as to provide services and products better catering to the needs of consumers and as a result, to continue strong growth in sales.

The store numbers of convenience chain stores in Taiwan in 2006 are as follows:

	7-ELEVEN	Family Mart	Hi-Life	OK	Nikko Mart	Others	Total
Total	4,385	2,012	1,261	869	301	261	9,089

## I-3 Research and Development

To keep up with the digitalization trend, 7-ELEVEN is always researching and innovating. In 2006, we launched the following digital services to meet with the needs of consumers:

### a. ibon kiosk:

ibon kiosk was first introduced at 1,100 stores in the Greater Taipei in Aug.,2006. It is a digital service platform that offers features such as mobile offices, bill printing and payments, travel, tickets, bonus point exchanges, digital downloading and insurance. We hope that ibon kiosk extends our services into the virtual space in our limited numbers of "bricks and mortars", in order to provide consumers with more convenient options. In 2007, it is planned that ibon kiosk will introduce more services and gradually expand to all the stores in Taiwan.

### b. Strategic alliance with WIFLY to create a digital convenience store chain:

In September 2006, over 600 7-ELEVEN stores in the Greater Taipei completed the deployment of W-LAN networks, allowing consumers to access the Internet over WIFLY within 100 meters around the stores. This strategic alliance made 7-ELEVEN a great "wireless" neighbor to consumers.

### c. ifoto, a professional image service center:

With the advancement of network transmission speeds, digital pictures and online photo development can be combined as one. 7-ELEVEN and Wisdom Distribution Service Corp. Once again collaborated, invested millions of NT dollars to upgrade the back-end image processing and distribution system and launched ifoto, an online photo printing service. This product made 7-ELEVEN the largest virtual photo printing shop in Taiwan. In addition to allow consumers to print out quality photos from their digital files, ifoto offers the services with which consumers may convert their digital files into fine imagery items that can be treasured or given away as gifts. These services combine the features of image life and digital printings.

d. icashwave, a convenient payment tool:

Since the debut of icash in 2004, 7-ELEVEN has successfully created the convenience that consumers do not need to carry coins and can check out at cashiers quickly. However, 7-ELEVEN continued to find ways to better its features and make it more convenient to use. After nearly two years, 7-ELEVEN and Chinatrust Commercial Bank will be launching icashwave in April 2007 by combining the features of electronic wallets and credit cards. This will save consumers the troubles of installing values with cash and offers them with another convenient option to make payments.

e. In 2006, PCSC spent a total of NT\$125.70 million on the R&D of systems. The expenditure on the R&D of systems totaled NT\$15.11 million by March 31, 2007.

### I-4 Short and Long Term Operating Strategies

a. Short-term operating strategies

- (1) Enhance franchise system and increase franchise percentage.
- (2) Increase the number of stores and maintain competitive advantages.
- (3) Strengthen cost management and improve operating efficiency per store.
- (4) Promote differentiations in marketing campaigns.
- (5) Step up personnel training and development.

b. Long-term operating strategies

- (1) Improve organizational efficiency and enhance operational efficiency of stores.
- (2) Implement value-added promotions and create effective differentiations.
- (3) Leverage existing advantages and develop new services and opportunities.
- (4) Strengthen franchise system and better personnel training and development.

## 2. Market Analysis and Merchandise

### 2-1 Market Analysis:

a. Main product (service) sales areas:

In terms of product development, we continue to provide consumers with a diverse, high-quality and high value added range of products. We never cease our efforts to launch innovative services to make life much easier for consumers. We strive to meet with each and every demand from consumers for efficiency and convenience.

Apart from Taiwan, Kinmen and Penghu, our service area has been expanded to include Matsu. By continuing to follow our motto "7-ELEVEN for all your needs", we seek to provide customers with best-of-breed services. °

b. Market share analysis and industry outlook:

- (1) By the end of 2006, PCSC had 48% market share (based on the number of stores) in the convenience chain store market. It is both the market leader and the number one consumer brand.
- (2) The convenience store sector has been reporting a growth in revenues higher than that in the overall general merchandise industry over the past two years. This impressive achievement was led by PCSC in its first integrated marketing campaign in 2005. Other convenience stores have followed suit, created the growth momentum for the sector and reversed the slow-down since 2001. As consumers' convenience demands continue to increase, the convenience store sector

still has tremendous potentials for growth as long as we can develop products and services that cater to the demands of customers by putting ourselves in their shoes.

c. Competitive advantages:

There is no saturation but redistribution in this industry. Despite the fierce competition in the convenience store market in Taiwan, we are confident that we will stand out if we can fully leverage on our own advantages and stay in tune with customers' needs. Our competitive advantages are as follows:

- (1) Strong brand and corporate image.
- (2) Economies of scale in distributions to facilitate the development of differentiated products and enhance bargaining powers.
- (3) Comprehensive distribution and support systems.
- (4) A highly capable management team.
- (5) Quality fresh food products free from additives.
- (6) Resources, capabilities and experiences to innovate the integrated marketing campaigns.
- (7) Trust from customers and franchise store operators.

d. Positive and negative factors for future growth & strategic responses:

- (1) Positive factors:
  - Rising concerns over nature and health as advocated by LOHAS.
  - Increase of eating-out population due to the structural changes of families.
  - Emergence of the markets for females and senior citizens.
  - Opening of the tourism policies to allow people from China to visit Taiwan.
- (2) Negative factors:
  - Competitors catch up at an accelerating rate and it is difficult to maintain differentiations.
  - Exodus of the heavy spenders to China brings down the overall purchasing power.
  - Credit card debts reduce the willingness to spend and the percentage of daily-life expenditures go south.
  - Soaring energy prices increase operational costs.
- (3) Strategic responses:
 

Looking forward, PCSC will continue to "immerse into customers' scenarios" in our constant renovations to develop products and services that cater to needs of customers. Meanwhile, we will leverage the know-how we have accumulated in the retail industry over time in order to duplicate and transfer our successful experience to assist our overseas businesses. We hope to accelerate our steps to become a world leading enterprise.

### 2-2 Major applications of key products and their production processes:

- a. Utilization: daily necessities.
- b. Production: not applicable.

### 2-3 Supply of major raw materials: not applicable.

### 2-4 Information on major clients/suppliers who have accounted for at least 10% of sales/procurements in either of the recent two years:

- a. List of customers that have accounted for at least 10% of sales over the past two years:
 

PCSC is a retailer of daily life merchandise. Our customers are the general public.
- b. List of suppliers that have accounted for at least 10% of procurements over the past two years:

(1) List of suppliers that account for at least 10% of procurements:

Unit: NT\$1,000

Year	2005		2006	
Name of Vendor	Amount	%	Amount	%
Retail Support International Corp.	41,630,192	63%	43,120,484	60%
Uni-President Cold Chain Corp.	14,428,903	22%	15,828,128	22%

(2) Reasons for significant changes: The increase in procurement amounts was due to the increase in sales.

## 2-5 Production over the past two years: not applicable.

## 2-6 Sales over the past two years: Please refer to p.32 for "Sales Breakdown by Category in Year 2005 and 2006".

## 3. Personnel Information

Year	2005	2006	As of April 25, 2007	
No. of Employees	Store Employees	2830	3099	3074
	Headquarters	1550	1699	1725
	Part-time	3675	3404	3272
	Total	8055	8202	8071
Average Age	27	27	28	
Average Years of Service	3.7	4.1	4.1	
Education Level (%)	PhD	—	—	—
	Master	3.3	4.1	3.9
	Bachelor	44.1	44.4	48.1
	High School	46.3	49.5	46.1
	Others	6.3	2	1.9

## 4. Environmental Protection and Expenditures

### 4-1 Environmental (Green) Accounting

PCSC spares no efforts in environmental protection. For years, our endeavours include energy conservations, the development of additives-free products and environmental cleaning. In 2006, we promoted the concepts of health and environment under the LOHAS slogan. We adopt the green environmental (green) accounting system to present this information in the form of financial figures.

According to the environmental accounting system, we classify our environmental protection expenses at the headquarters and stores into the following categories: products, stores, delivery, office management, internal education and social contributions. Below is a table that summarizes all the statistics regarding our environmental protection expenditures. PCSC spent a total of NT\$422.33 million on the aforementioned environmental related expenditures, of which the largest items were:

- (1) NT\$104.68 million on the cleaning and greening of the store environment and the disposal of wastes;
- (2) NT\$87.15 million in capital expenditures on the energy conservation equipment and relevant expenses;
- (3) NT\$57.25 million in environmental-friendly packaging of products;
- (4) NT\$44.94 million in capital expenditures on the expansion of useful years for store equipments and relevant expenses.

Other items include the recycling of kitchen waste, additive-free food, paperless environment, uniforms made with environmental-friendly materials and social and environmental welfare.

## 4-2 Environmental related expenditures

a. Table of environmental related expenditures

Unit: NT\$

Type	Item	Content	Benefits, resource effectiveness, reduction of emissions	Capex (NT\$)	Expenses (NT\$)	Total
Products	Security and environmental concerns during the manufacturing, procurement and selling processes of products	Procurement of 16,178,837 paper lunch boxes	Resource conservation		57,245,050	74,176,865
		Inspections on products and environments	Protection of human health		6,264,490	
	Specific fresh food products do not contain preservatives, artificial flavourings or residual pesticides	Inspections on fresh food contents	Protection of human health		2,600,650	
	In compliance with the regulation of Waste Disposal Act and Resource Recycling Act in terms of recovery and cleaning of packages and containers, recycling and processing of food waste.	Resources recycling and processing	Recycled 429.81 tons of expired fresh food products		8,066,675	
Stores	Energy conservation	Purchase of energy-saving equipment: 356 large power savers; 264 mainframes for sharing; 530 inverter air-conditioners; energy-efficiency engineering for lights at passageways	Energy conservation	85,623,300	1,528,247	241,485,787
	Cleaning and disposal of wastes and resource recycling	Cleaning and greening of store environments and disposal of wastes	Maintenance of clean environments		104,681,570	
	Extension of useful lives of equipment and building materials	Purchase of 517 steel check-out counters	Reduction of tree cutting by 2,585 trees	43,428,000	1,510,183	
	Green procurement	Green procurements for stores: 11,172 uniforms made of environmental-friendly materials and 2,235,880 environmental-friendly garbage bags	Enhancement of green procurements		4,714,487	
Delivery	Enhancement of loading efficiency and reduction of delivery time and distance to reduce the impacts to the environment	Two-distribution system for bread and fresh food products	The number of deliveries reduced by 15,560 trips	24,780,000	2,700,000	40,981,401
		Reduction of greenhouse gas and recycling of HCFs for distribution vehicles	Reduction of distribution loading means a reduction of 55.37 tons of carbon dioxide emissions and recycling of 14 kilograms of HCFs.		7,000	
	Implementation of Reverse Logistics (recycling of resources)	Spending on manpower and equipment on reverse logistics at stores	Reduction of wastes	5,335,438	8,158,963	
Office management expenses	Disposal of wastes, recycling of resources and maintenance of the environment	Cleaning and greening of the office environment and disposal of wastes	Maintenance of clean environments and recycling of resources: 3,945 kilograms of pet bottles; 42,930 kilograms of paper; 468 kilograms of tin cans		4,358,049	19,425,908
	Promotion of paperless environments	Deployment and maintenance of communications platforms, HR systems and electronic publications	Reduction of wastes		13,485,000	
	Maintenance of environmental management system	Staff expenses on the environmental protection activities	Maintenance and promotion of the environment management systems		1,582,859	
Internal education	Educational campaign to promote environmental	protection Promotional campaigns for LOHAS, production of resource recycling manuals and webpages, and the publication of 800 copies of special features on the cleaning activities	Environmental education to employees		270,195	270,195
Social contributions	External publicity campaign to distribute information on the environments	120,000 copies of environmental reports; 5,000 copies of promotional manual on traffic safety and accident handling; maintenance of webpages that post environmental reports; promotion of the use of green products (such as environmental-friendly chopsticks)	External promotion of environmental information		150,587	45,991,638
		97,775 people participated in the 7-ELEVEN sponsored national/world cleaning activities	Reduction of garbage by 121.5 tons		6,624,698	
	Organization of or involvement in socially beneficial activities	Community competitions for nature story photography	Promotion of environmental education		1,593,816	
		LOHAS festivals and events; Urban Simple Life Music Festival	Promotion of environmental education		19,497,617	
		Sponsoring of environmental groups	Promotion of environmental education		16,770,000	
Conservation of the ecosystem	Conservation activities	Protection of wetlands		1,354,920		
Total				159,166,738	263,165,056	422,331,794

2. In 2006 and during the first four months of 2007 (up to April 25), some stores violated Noise Control Act and the regulations governing the disposal of wastes and were fined for a total of NT\$692,940 and NT\$158,360 in respective periods.

### 4-3 Benefits of investments in environmental protection

#### a. Recycling and reuse

Each 7-ELEVEN environmental-friendly uniform is made from 12 recycled pet bottles. In 2006, 7-ELEVEN spent a total of NT\$1,826,003 on the purchase of 11,172 environmental-friendly uniforms. This means a total of 134,064 pet bottles were recycled. It was a great reduction of pollutions to the environment.

#### b. Benefits of energy-efficient facilities

##### Large Power Savers

The introduction of a large power saver to each store can save 16,584 kw/h of electricity on average. In 2006, 7-ELEVEN invested NT\$24,453,300 on the installation of power savers at 356 stores. By December 31, 2006, a total of 3,600 7-ELEVEN stores have power savers.

##### Refitting of Heat Sinks (refrigeration units' joint engines)

Stores indoor heat sinks have been refitted as external heat sinks in order to reduce energy consumption. On the average, the introduction of refrigeration units' joint engine at each store saves around 17,273 kw/h p.a. In 2006, 7-ELEVEN invested a total of NT\$11,880,000 on the introduction of 264 joint engines. By December 31, 2006, a total of 1,221 stores have joint engines installed onsite.

##### Frequency-converter Air-conditioning

The introduction of two frequency-converter air-conditioners into each store, on average, saves 4,980 kw/h of electricity p.a. In 2006, a total of NT\$49,290,000 was spent on the introduction of 530 frequency-converter air-conditioners into 265 7-ELEVEN stores. By December 31, 2006, a total of 265 7-ELEVEN stores have frequency-converted air-conditioners installed onsite.

##### Steel Counters

Steel counters will replace wooden ones at stores. This will increase the number of years in use before renovations from 6 to 8 years. In addition, steel counters may be recycled and reused, as far as environmental protection is concerned. In 2006, 7-ELEVEN purchased a total of 517 steel counters by investing NT\$43,428,000. Each steel counter, in place of a wooden one, means a reduction of logging by 5 trees. In total, 7-ELEVEN has avoided the cutting of 2,585 trees already in 2006. It is 7-ELEVEN's contribution to the protection of the environment.

#### c. Guarantee of food hygiene

##### Food hygiene tests

To ensure the safety of food, we conduct rigorous inspections on fresh food products (and packaging materials) before they go to shelves to make sure that they are free from preservatives and micro-organisms. In 2006, NT\$2,600,650 was spent on such inspections. By March 2007, a total of 229 fresh food products at 7-ELEVEN are free from artificial flavorings, artificial colorings and preservatives.

### 4-4 Improvement measures

We ask all of our stores to make improvements when necessary and make sure they are aware of relevant regulations

### 4-5 Information related to EU RoHS Directives

None of the products of our company or our subsidiaries is directly or indirectly exported to Europe, or affected by RoHS Directives.

## 5. Employee Relations

### 5-1 Employee benefits

#### a. Integration of the group's HR systems and resources

PCSC and its affiliates review and revise their HR systems in order to build an environment that facilitates fair and reasonable mobility of talents throughout the group. Such reviews and revises will help the establishment of a comprehensive talent bank and a career plan system for the group.

#### b. Comprehensive employee benefits

By the decree of Official Letter Taipei City Social II No. 58459 of Department of Social Welfare, Taipei City Government (1987), PCSC established an Employee Benefits Committee on December 21st, 1987. Members of the Committee are jointly elected by both PCSC and employees. The Committee regularly hosts a variety of activities, organizes health check-ups for employees and offers benefits such as subsidies for on-the-job trainings and studies. PCSC offers benefits such as cafeteria benefits, overseas trips for senior employees, health check-ups, financial trust services, club subsidies, libraries, group purchase discounts, wedding and funeral allowances, paid maternity and paternity leaves, dormitories for female employees, group insurances, employee travel allowances, and other benefits provided by Employee Benefits Committee to meet the needs of employees. °

#### c. Integration of the group's training resources

PCSC established PCSC Learning Center to develop a common training curriculum in retail management to allow its affiliates to participate in different methods or focus on different subjects. In this way, the group is able to maximize the benefits in talent development by fully utilizing training budgets and resources. In addition, PCSC spares no efforts in the utilization of digital learning systems so that its employees are aware of their personal learning paths. The combination of online curriculums, online tests, classroom drills and reports uploading further expand the training benefits. The digital learning system is used to integrate retail know-how unique to each of the group's affiliates so that competences can be passed down, transferred and utilized freely within the group. °

#### d. Special franchise program

PCSC provides an incentive program to encourage employees to become franchisees so that they can grow and develop along with the company.

#### e. Safe and harmonious workplace

PCSC provides employees with a safe and harmonious workplace that encourages positive interactions between male and female employees. A set of crisis management policies and teams have been defined and assigned. In addition, PCSC regularly inspects indoor air quality, water quality and illumination in order to create a superior working environment. Also, to ensure the safety of employees at work, PCSC and Employee Benefits Committee both offer a variety of injury-related benefits on top of accidental insurances and group insurances.

#### f. Retire plan :

##### (1) Old system under the Labor Standards Act

In 1987, PCSC began its employee retirement program, applicable to all the formally hired employees. This program calculates the service years by dating back the first date of employment.. Employees who have been in service for less than 15 years (inclusive) shall be granted two basic units for each full year of service in the calculation. From the 16th year onward, each full year

of service shall be translated into one basic unit in the calculation of pensions. Any service period that is less than six months shall be calculated as half a year; while any service period that is between six months and twelve months shall be calculated as one full year. The number of basic units in the calculation of pensions is capped at 45. Pensions are calculated on the basis of service years and the average monthly salary at the time of retirement. Calculation of average salaries shall be made in compliance with Labor Standards Law.

(2) Pension policy to include the service years in affiliates for transferred employees

- a. The calculation of service years for transferred employees includes the number of years they serve in any PCSC affiliate or members of the Uni-President Group.
- b. The sharing of pensions among affiliates is based on the percentage of the service years spread over the affiliates that employees serve.

(3) New system under the Labor Pension Act

Beginning on July 1, 2005, in compliance with the Labor Pension Act, PCSC implements a new system that is applicable to all hired employees. All the employees can opt for the old system under the Labor Standards Act as stated in (1) or the new system under the Labor Pension Act. A switch to the new system is still possible within five years after an employee has chosen the old system. According to the regulations of the Labor Pension Act, the payout is made based on the Monthly Contribution Wages Classification. In other words, 6% of their monthly income is transferred to their personal retirement account with Bureau of Labor Insurance.

## 5-2 Labor relations

a. Open communications channel

Aside from the service center at the headquarters and email suggestion box to answer questions from employees, PCSC has established a website discussion forum on the intranet to facilitate communications among all employees for issues in life and at work and the exchanges of their ideas and feedbacks.

b. Employee Code of Conduct

Within a framework of integrity, trust and ethical conduct, PCSC has defined an Employee' s Handbook, and a scheme for rewards and disciplinary actions. An implementation committee has been put in place to execute these procedures. Self-Discipline Pack for Employees has also been defined to clearly state the code of conduct for employees.

According to Self-Discipline Pack for Employees, employees should observe the following regulations in actions, ethics and code of conduct.

- (1) Employees cannot use company money for personal purposes, engage in unscrupulous behaviors for profits, involve in illegal acts, violate any contracts, damage public properties or jeopardize the company's reputation.
- (2) Employees shall not abuse any other individual, affect any other individual' s work performances or threaten to exchange the establishment of service contracts, compensations, performance reviews, promotions/demotions, rewards/disciplinary actions with any words or actions that contain sexual requests, sexual connotations or sexual discriminations.
- (3) Employees shall not give gifts to supervisors or treat supervisors for meals; however, supervisors may give gifts to subordinates and treat subordinates for meals as a token of gratitude for their hard work.
- (4) Employees shall not be engaged in non-business monetary transactions with any business-related vendors or employees.
- (5) Employees shall not receive any benefits from business-related vendors or individuals.
- (6) Employees shall not make publications, statements or displays in the name of the company without permission from the company.
- (7) Employees should maintain the confidentiality of the business activities they are responsible for and shall never, in any circumstances, assist any company or individual that has conflicts of interests with our company or compete against our company by revealing the business secrets of our company.
- (8) The attendance and all kinds of behaviors should be in compliance with the regulations set forth by HR.

c. Labor negotiations:

PCSC has always valued its human resources as its most significant asset, and has worked to align the vision of the company and the wishes of employees. PCSC understands the importance of employees' career development goals and works toward maintaining good relations with its employees. Labor relations have been well-balanced at PCSC.

d. Losses due to labor disputes

PCSC provides employees with a comprehensive benefit system, quality working environment and open communications channel. Therefore, no major labor disputes have occurred and no significant losses have been reported.

April 25, 2007

## 6. Important Contracts

Contract Type	Contracting Party	Terms of Agreement	Summary	Restriction Clause
Regional licensing agreement	7-ELEVEN, Inc	July 20, 2000 ~ perpetuity	<p>1. PCSC is authorized by 7-ELEVEN, Inc. to operate its "convenience chain store" business in the licensed area, and has the right to use 7- ELEVEN franchise systems, logos, business know-how, trademarks and service marks.</p> <p>2. PCSC shall pay royalty fees to 7- ELEVEN, Inc. at % of sales stated in the contract on a monthly basis.</p>	PCSC is obligated to well manage, operate and expand the convenience store business within the authorized area. PCSC is not permitted to operate its convenience store business outside the authorized area or continue with the operations of its convenience store business within one-year after termination of this contract.
Long Term Guarantee	Bank of Taiwan	June 10, 2003~ June 12, 2008	NT\$700 million corporate bond guarantee	None
Long Term Guarantee	Taipei Fubon Commercial Bank	June 10, 2003~ June 13, 2008	NT\$800 million corporate bond guarantee	None
Long Term Debt	Bank of Taiwan	October 4, 2006~ October 4, 2008	NT\$300 million credit loan	None
Long Term Debt	Taipei Fubon Commercial Bank	June 20, 2005~ June 19, 2008	NT\$500 million credit loan	None
Long Term Debt	The Shanghai Commercial & Savings Bank	July 21, 2004~ July 20, 2007	NT\$350 million credit loan	None
Long Term Debt	Chinatrust Commercial Bank	September 8, 2006~ July 31, 2008	NT\$800 million credit loan	None
Long Term Debt	Taishin International Bank	December 31, 2005~December 31, 2007	NT\$500 million credit loan	None
Long Term Debt	E. Sun Bank	September 21, 2006~September 21, 2009	NT\$300 million credit loan	None
Long Term Debt	Cathay United Bank	May 24, 2005~May 24, 2008	NT\$300 million credit loan	None
Long Term Debt	Hua Nan Commercial Bank	March 27, 2007~ March 27, 2009	NT\$500 million credit loan	None
Long Term Debt	Mega International Commercial Bank	January 26, 2007~ January 25, 2009	NT\$900 million credit loan	None
Long Term Debt	Chang Hwa Bank	January 5, 2007~ December 31, 2008	NT\$500 million credit loan	None
Long Term Debt	Mizuho Corporate Bank	October 27, 2006~ October 27, 2008	NT\$500 million credit loan	None

## VI. FINANCIAL INFORMATION

### I. Five Year Brief Balance Sheet and Income Statement

#### I-1 Brief Balance Sheet

Unit: NT\$1,000

Item	Year	Five Year Balance Sheet Summary (Note 1)					As of March 31, 2007(Note 1)
		2002	2003	2004	2005	2006(Note 2)	
Current Assets		4,227,259	6,583,792	4,704,714	6,466,923	7,884,320	7,438,566
Funds & Long-Term Investments		12,693,029	12,788,841	13,763,713	17,664,427	19,248,498	19,161,597
Fixed Assets		6,438,890	6,833,018	9,193,812	6,954,385	6,851,322	7,030,243
Intangible Assets		—	—	—	—	—	—
Other Assets		1,462,411	1,634,198	1,532,699	2,549,690	2,334,626	2,322,689
Total Assets		24,821,589	27,839,849	29,194,938	33,635,425	36,318,766	35,953,095
Current	Before Distribution	9,168,310	10,428,885	10,597,585	13,437,482	17,293,024	15,618,680
Liabilities	After Distribution	10,128,964	12,825,308	13,504,197	16,816,439	Not yet distributed	Not yet distributed
Long-Term Debt		2,700,000	2,200,000	2,700,000	3,320,000	1,114,994	1,515,101
Other Debt		1,244,322	1,404,175	1,525,528	1,704,818	1,927,574	1,980,318
Total Liabilities	Before Distribution	13,112,632	14,033,060	14,823,113	18,462,300	20,335,592	19,114,099
	After Distribution	14,073,286	16,429,483	17,729,725	21,841,257	Not yet distributed	Not yet distributed
Common Stock		7,720,319	8,584,995	9,151,604	9,151,604	9,151,604	9,151,604
Capital Reserve		308	—	—	—	—	—
Retained Earnings	Before Distribution	3,917,335	5,193,144	5,275,979	6,022,052	6,465,423	7,334,550
	After Distribution	2,956,681	2,230,112	2,369,367	2,643,095	Not yet distributed	Not yet distributed
Unrealized Gains (Loss) from Long-term Investments		—	—	—	—	359,191	345,886
Total Foreign Currency Exchange Adjustment		70,995	28,650	(55,758)	(531)	6,956	6,956
Net Loss Not Recognized as Pension Cost		—	—	—	—	—	—
Shareholders' Equity	Before Distribution	11,708,957	13,806,789	14,371,825	15,173,125	15,983,174	16,838,996
	After Distribution	10,748,303	11,410,366	11,465,213	11,794,168	Not yet distributed	Not yet distributed

Note 1: All the annual financial information is audited by external auditors. Information regarding the first quarter of 2007 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 2006.

#### I-2 Brief Income Statement

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

Item	Year	Five Year Income Statement Summary (Note 1)					As of March 31, 2007(Note 1)
		2002	2003	2004	2005	2006(Note 2)	
Revenue		72,193,129	77,861,616	80,943,099	93,673,610	99,979,618	24,630,972
Gross Profit		21,507,057	23,371,944	24,559,257	28,159,084	30,242,681	7,141,947
Operating Profit		3,126,993	3,321,404	3,195,912	4,177,040	4,514,001	878,420
Non-Operating Income		404,571	943,919	836,926	821,494	903,954	293,892
Non-Operating Expenses		440,495	330,591	242,446	367,880	360,367	(38,133)
Pre-Tax Income from Continuing Operation		3,117,587	3,934,732	3,785,908	4,630,654	5,057,588	1,134,179
After-Tax Income from Continuing Operation		2,572,451	3,681,606	3,047,397	3,652,685	3,821,955	869,127
Income from Discontinued Operation		—	—	—	—	—	—
Extraordinary Income		19,889	—	—	—	—	—
Cumulative Effects of Changes in Accounting Principles		—	—	—	—	373	—
Net Income		2,592,340	3,681,606	3,047,397	3,652,685	3,822,328	869,127
Earnings per Share(NT\$)		3.36	4.29	3.33	3.99	4.18	0.95

Note 1: All the annual financial information is audited by external auditors. Information regarding the first quarter of 2007 is reviewed by external auditors.

Note 2: As of the publication date of the Annual Report, the Annual Shareholders' Meeting has not yet to decide on the earnings distribution of 2006.

### I-3 Auditors' Opinions in Recent Five Years

Year	Audit Firm	Name of CPAs		Auditor's Opinion
2002	PRICEWATERHOUSECOOPERS	Lai, Chun Tien	Yang, Ming Chu	Modified Unqualified
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 Q1	PRICEWATERHOUSECOOPERS	Lin, Tung Chiao	Chen, Mei Tzu	Opinion Reserve (Note)

Note: The financial information of the first quarter of 2007 has been reviewed by external auditors. However, the opinion was reserved because profits and losses due to long-term investments under the equity method and Footnote 11 were based on the financial reports and disclosures by investees but not yet reviewed by auditors.

### I-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 beginning in 2004.

## 2. Five Year Financial Analysis

Item	Year	Five Year Financial Analysis Summary (Note 1)					As of March 31, 2007 (Note 1)	
		2002	2003	2004	2005	2006		
Financial Structure	Debt to Assets (%)	52.83	50.41	50.77	54.89	55.99	53.16	
	Long-term Capital to Fixed Assets (%)	223.78	234.26	185.69	265.92	249.56	261.07	
Liquidity	Current Ratio (%)	46.11	63.13	44.39	47.83	45.59	47.63	
	Quick Ratio (%)	17.96	36.30	16.56	21.23	23.82	21.73	
	Interest Coverage	38.23	50.80	58.72	61.41	74.54	69.14	
Operating Performance	Account Receivable Turnover (Times)(Note 2)	-	-	-	-	-	-	
	Average Collection Days (Note 2)	-	-	-	-	-	-	
	Inventory Turnover (Times)	25.23	28.25	26.48	26.08	24.42	5.97	
	Account Payable Turnover (Times)	10.53	10.03	9.97	11.44	10.20	2.30	
	Average Inventory Turnover Days	14.00	13.00	14.00	14.00	15.00	15.00	
	Fixed Assets Turnover (Times)	11.21	11.39	8.80	13.47	14.59	3.50	
	Total Assets Turnover (Times)	2.91	2.80	2.77	2.78	2.75	0.69	
Profitability	ROA (%)	11.54	14.21	10.86	11.81	11.07	2.44	
	ROE (%)	23.90	28.86	21.63	24.73	24.53	5.30	
	Ratio to Paid-in Capital (%)	Operating Income	40.50	38.69	34.87	45.64	49.32	9.60
		Pre-tax Profit	40.04	45.83	41.37	50.60	55.26	12.39
	Net Income to Net Sales (%)	3.59	4.73	3.76	3.90	3.82	3.53	
EPS (NT\$)	3.36	4.29	3.33	3.99	4.18	0.95		
Cash Flow	Cash Flow Ratio (%)	60.26	64.47	53.15	57.50	52.59	—	
	Cash Flow Adequacy (%)	77.85	90.85	82.50	87.68	99.63	98.42	
	Cash Flow Reinvestment Ratio (%)	22.72	22.82	13.58	18.21	22.05	—	

Item	Year	Five Year Financial Analysis Summary (Note 1)					As of March 31, 2007 (Note 1)
		2002	2003	2004	2005	2006	
Leverage	Operating Leverage	1.92	2.06	2.26	2.07	2.02	2.08
	Financial Leverage	1.03	1.02	1.02	1.02	1.02	1.02

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

© Interest Coverage: Interest coverage went up mainly due to strong sales in 2006, higher earnings before interests and taxes, repayments of some corporate bonds and the resultant reduction of interest expenses.

© Cash Flow Reinvestment Ratio: Cash Flow Reinvestment Ratio rose because of strong sales in 2006 and the resultant increase in cash inflows from operating activities.

Note 1: All the annual financial information is audited by external auditors. Information regarding the first quarter of 2007 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

■ Operating 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 Income to Net Sales = 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 2006 annual report disc for supervisor's report of the most recent financial year.

### 4. Financial Report of recent years

Please refer to attached 2006 annual report disc to 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 2006 annual report disc.

### 6. Financial Difficulties

Any financial difficulties during the most recent year and as of March 31 2007 for the Company and its affiliates: None.

## VII. FINANCIAL STATUS, OPERATING RESULTS & RISK MANAGEMENT

### I. Financial Position:

Unit: NT\$1,000

Item	Year	2006	2005	Variance	
				Difference	%
Current Assets		7,884,320	6,466,923	1,417,397	21.92%
Long-Term Investments		19,248,498	17,664,427	1,584,071	8.97%
Fixed Assets		6,851,322	6,954,385	(103,063)	(1.48%)
Other Assets		2,334,626	2,549,690	(215,064)	(8.43%)
Total Assets		36,318,766	33,635,425	2,683,341	7.98%
Current Liabilities		17,293,024	13,437,482	3,855,542	28.69%
Long-Term Liabilities		1,114,994	3,320,000	(2,205,006)	(66.42%)
Total Liabilities		20,335,592	18,462,300	1,873,292	10.15%
Common Stock		9,151,604	9,151,604	—	—
Capital Reserves		—	—	—	—
Retained Earnings		6,465,423	6,022,052	443,371	7.36%
Total Shareholders' Equity		15,983,174	15,173,125	810,049	5.34%

#### 1. Variance Analysis for Deviations over the Most Recent Two Years

- (1) Increase of current assets primarily due to a high level of cash at hand as the end of 2006 happened to be a weekend.
- (2) Increase of current liabilities primarily due to the growth of bill collection services and the delay of payments to suppliers as the year end happened to be a holiday.
- (3) Decrease of long-term debt primarily due to repayments of long-term loans and part of corporate bonds, and the conversion of corporate bonds due within a year into current liabilities.

2. Impacts to Financial Situations over the Last Two Years: The aforesaid changes have no significant impacts to the Company.

3. Future Strategies: The working capital derived from future operating activities and the funding from financial institutions will be sufficient to meet the demands of PCSC's operating activities.

### 2. Operating Results:

Unit: NT\$1,000

Item	Year	2006	2005	Variance	
				Difference	%
Operating Revenue		99,979,618	93,673,610	6,306,008	6.73%
Gross Profit		30,242,681	28,159,084	2,083,597	7.40%
Operating Expenses		25,728,680	23,982,044	1,746,636	7.28%
Operating Profits		4,514,001	4,177,040	336,961	8.07%
Non-Operating Income		903,954	821,494	82,460	10.04%
Non-Operating Expenses		360,367	367,880	(7,513)	(2.04%)
Pretax Income of Continuing Operation		5,057,588	4,630,654	426,934	9.22%
Income Tax		1,235,633	977,969	257,664	26.35%
Cumulative Effects of Changes in Accounting Principles		373	—	373	—
Net Income		3,822,328	3,652,685	169,643	4.64%

#### 1. Explanation for Variance

- (1) An increase in revenue, net operating profit and pre-tax profits largely due to an increase in the number of stores and introduction of new products and services.
- (2) An increase in income tax expenses largely due to the growth in profits of the period and the hike of tax rates.

2. Factors that might impact the Company's sales and financial situations of the following year and the proposed responses:

PCSC estimates a continuous growth in revenues for 2007.

### 3. Cash Flow

#### 3-1 Variance Analysis of Cash Flow

Unit: NT\$1,000

Cash Balance at Beginning of Year 2006	Net Cash Inflows from Operating Activities	Net Cash Outflows Throughout the Year	Cash Surplus (Shortage)	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
2,076,066	9,093,998	(7,931,650)	3,238,414	—	—

1. Operating cash flows: Net operating inflows of approximately NT\$9.094 billion, mainly resulting from a growth in PCSC's services in fee and bill collections and the deferred payments to credits offered by suppliers due to holidays at the end of the year.
2. Investing cash flows: Net investing outflows of approximately NT\$3.257 billion, mainly resulting from the purchase of fixed assets for stores and the acquisitions of long-term investments.
3. Financing cash flows: Net financing outflows of approximately NT\$4.675 billion, mainly resulting from the payout of cash dividends and repayments of long-term debts. °

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

#### 3-3 Cash Flow Analysis for the Coming Year:

Unit: NT\$1,000

Cash Balance at Beginning of Year 2007	Projected Net Cash Inflows from Operating Activities	Projected Net Cash Outflows Throughout the Year	Expected Cash Surplus (Shortage)	Remedies for Cash Shortage	
				Investment Plans	Financing Plans
3,238,414	6,157,130	(7,862,264)	1,533,280	—	—

1. Operating activities: Stable growth in revenues for 2007 is expected and hence a net operating cash inflows are anticipated.
2. Investing activities: Cash outflows mainly due to an expected increase in long-term equity investments and the purchase of fixed assets.
3. Financing activities: Cash outflows mainly due to the expected cash dividend payout, 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 Expected Date of Project Completion	Total Capital Required	Actual or Planned Capital Expenditures						
				2005	2006	2007	2008	2009	2010	2011
Investments in New Stores	Working capital and loans	Annual	4,195,455	720,097	826,513	992,903	827,971	827,971	827,971	827,971
POS. (Point-of-Sale) Equipment	Working capital and loans	Annual	756,709	152,722	143,843	205,278	127,433	127,433	127,433	127,433
Renovations of Existing Stores	Working capital and loans	Annual	1,871,333	186,743	113,102	578,272	496,608	496,608	496,608	496,608
Equipment Purchases/ Replacements for Stores	Working capital and loans	Annual	2,283,455	243,674	457,242	948,201	317,169	317,169	317,169	317,169

## 4-2 Estimated Benefits

### a. Anticipated Increase in Sales and Gross Profits

Unit: NT\$1,000

Year	Item	Sales	Gross Profit
2007	New Store Investments	2,761,455	841,691
2008	New Store Investments	2,792,556	851,730
2009	New Store Investments	2,792,556	851,730
2010	New Store Investments	2,792,556	851,730
2011	New Store Investments	2,792,556	851,730

### 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 consumers' needs and augment marketing strategies;
- (2) Monitor inventory levels and minimize inventory shortages;
- (3) Improve business competitiveness.

## 5. Long-Term Investments :

### 5-1 Long-Term Investment Policies and Plans

PCSC's corporate mission is to "provide a convenient way of life to consumers and set the trends of a quality lifestyle". With over three decades of experience in retail chain stores, PCSC has established a network of over 30 companies in the distribution industry that ranges from physical channels, virtual channels and logistical support.

Looking forward, PCSC will continue to fulfill its corporate mission and develop new businesses that bring benefits to the society. We will strengthen our network of businesses in the retail and distribution industry, in and out of Taiwan, in order to create a quality life that is colorful and fruitful to consumers.

In 2007, PLAZA, Cold Stone Creamery, Hankyu Department Stores and MARKS & SPENCER in Taiwan will all become operational. It is believed that these new businesses are able to bring a new and enjoyable shopping experience to consumers.

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

The major long-term investments in 2006 are as follows:

Item	Explanations	Investment in 2006	Reasons for Profits or Losses
Uni-President Department Store		NT\$350,000,000	Still in preparatory stage. Not yet operational.
President Fn Business Corp.		NT\$100,000,000	Still in preparatory stage. Not yet operational.
Tong-Jeng Development Corp.		NT\$570,000,000	Still in the early stage of operations. Businesses not yet stable and yet to break-even.
PCSC (China) Limited		NT\$211,736,000	Still in the early stage of operations. Businesses not yet stable and yet to break-even.

## 6. Policies, Organizational Structure and Issues of 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 observing all the relevant regulations, PCSC identifies, analyzes, measures, monitors, controls, reports and improves all the potential risks throughout operating activities. A reasonable scope of risks is defined in accordance with risk characteristics and impact levels, in order to assure PCSC is able to achieve its strategic goals.

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

a. Strategic and Operational Risks:

Each business unit and subsidiary is responsible for prior planning and risk assessment for any investment and operational decisions. Strategy Planning Group will conduct key performance indicator analysis and track performances in the monthly meetings with companies within the business group, in order to align corporate strategies with visions and operational targets.

b. Financial Risks, Liquidity Risks and Credit Risks:

The Finance Group defines various sets of strategies, procedures and indicators, by referring to the changes in regulations, policies and markets, to analyze all the relevant risks and take responding measures accordingly.

c. Market Risks:

All the business units analyze and assess market risks of their responsible functions and businesses by referring to key policies, regulations and technological changes within and without Taiwan, in order to come up with appropriate responding measures. In addition, PCSC has established a cross-function regulations 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 risks. The results shall be presented to the Board of Directors.

### 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 impacts to PCSC's profits or losses.

(2) Foreign Exchange Rate Fluctuations: PCSC's trading currency is mainly NT Dollars and imported goods account for a very low percentage of total sales. Therefore, foreign exchange fluctuations do not have significant impacts to PCSC's profits or losses.

(3) Inflation: The inflation over 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. The purpose of these internal requirements and procedures is to establish a sound financial and operational foundation. 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

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

## (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 2006	Outstanding Balance of Endorsement as of March 31st, 2007
Retail Support International Corp.	Business relations	NT\$ 450,000,000	NT\$ 400,000,000
Wisdom Distribution Service Corp.	Subsidiary	—	NT\$ 50,000,000
President Information Corp.	Subsidiary	NT\$8,000,000	NT\$ 8,000,000
President YiLan Art & Culture Corp.	Subsidiary	NT\$ 65,000,000	NT\$ 15,000,000
Wuhan Uni-President Oven Fresh Bakery Co., Ltd.	Subsidiary of subsidiary	—	USD 3,500,000
Mech-President Corp.	Subsidiary	USD 2,000,000	USD 3,000,000
Philippine Seven Corp.	Subsidiary	USD 4,000,000 PHP 180,000,000	USD 4,000,000 PHP 180,000,000

Note: The total value of PCSC's endorsement is capped at 50% of the net value and at 20% for endorsements of 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 at a nominal value of NT\$700 million.

Unit: NT\$1,000

hedged items	Assigned hedging tools		cashflow period	recognition into income statements	
	financial instruments assigned as hedging tools	fair value			
		Dec 31, 2006			Mar 31, 2007
corporate bonds payable	interests swaps	(\$14,994)	(\$24,777)	June, 2003~June, 2008 2003~2008	

## (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 &amp; Development Plans and Projected Investments:

## (1) 7-ELEVEN Multimedia Electronic Bulletin Board:

Studies show that 75% of purchase decisions are made in front of the shelves. Meanwhile, in-store advertising enhances the desires of impulse purchases and as a result, creates more sales. Beginning in 2005, 7-ELEVEN has been developing a multimedia electronic bulletin board for its stores in order to provide an innovative, accurate and real-time new media platform to communicate with consumers in

accordance with specific timeslots and demands of the consumers in various business areas. At the end of 2006, some stores conducted tests on this bulletin board. It is hoped that this new media platform can communicate with consumers at the spot closest to the shelves and hence boost sales. In 2007, stores in Taipei will start to gradually introduce the multimedia electronic bulletin board.

(2) Entry into the Telecommunications Market:

7-ELEVEN is currently applying for a license to become an MVNO (mobile virtual network operator) with its own brand. It is hoped that 7-ELEVEN prepaid cards will be able to attract new customers. The entry into the telecommunications market is one of our efforts to develop a variety of services under our brand.

(3) PCSC expects to invest a total of NT\$277,911,000 in the research and development of these new systems in 2007.

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

PCSC has already 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 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 QC200 Quality Control Policy, a set of standards higher than the national requirements, to ensure the protection of consumers. For nearly three decades, 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 2004, PCSC ranked the top in Commonwealth Magazine's evaluation of corporate citizenship category for Best Enterprises. 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 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 an 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, 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

### I. Affiliates Information

**I-1 Consolidated Business Report of Affiliates, 2006: Please refer to the attached 2006 annual report disc.**

**I-2 Affiliation Report, 2006: Please refer to the attached 2006 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: 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, PSCS has not experienced any event as described in Part 2, Section 2, Article 36 of the Securities Exchange Act that have major impacts to shareholders' equity or share prices.**

## IX. ADDITIONAL DISCLOSURES

### I. Key Performance Indicators

	2006	2005
Net operation margin (%)	4.51%	4.46%
Net profit margin (%)	3.82%	3.90%
EPS (NT\$)	4.18	3.99
ROE (%)	24.53%	24.73%
Inventory turnover (times)	24.42 (times)	26.08 (times)

## 2. Estimation Bases for the Valuation Allowances on the Balance Sheet

### 2-1 Inventory

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

### 2-2 Allowance for doubtful accounts

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

### 2-3 Financial assets

Effective January 1, 2006, the company adopted the R.O.C SAFS No. 34, "Accounting for Financial Instruments." Consequently, since January 1, 2006, the company practices the following principles in estimating its 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 practice 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 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 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 values of hedging tools and hedged items. The accounting treatments are as follows:

## (a) Fair Value Hedging:

When hedging instruments are re-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 hedge 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. Beginning in 2006 (inclusive), 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 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) Beginning on January 1, 2005, 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. If the Company has control over the investees, the Company shall fully absorb the losses of the original shareholders' equity of the investees unless other shareholders of the investees are obliged to and able to provide additional funding to make up the losses. If such investees reap profits at a later stage, the Company is entitled to the earliest profits until the losses the Company has recognized are fully recovered.

(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 re-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 hedge 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 losses recognition into income statements	
	financial instruments assigned as hedging tools	fair value			
		Dec 31, 2006			Dec 31, 2005
corporate bonds payable	interest swaps	(\$14,994)	(\$23,816)	June, 2003~June, 2008	2006~2008

Items	Dec.31, 2006
Adjustments to Shareholders' Equity	(\$ 14,994)
Translation of Shareholders' Equity to Gains (Losses) of the Period	\$ —
Translation of Shareholders' 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 Auditors (CIA): one.

##### 4-2 Professional training of employees:

Accounting supervisors: Openly Listed and Traded Company Financial and Accounting Administrator Professional Certification course (30hrs) ◦

