



About PCSC

2.1

Operations Overview

Scale of the Organization

Company profile

PCSC celebrated its 40th anniversary in 2018. Since our founding in 1978, PCSC has been with the people in Taiwan, leading the way with our familiar bright green and orange sign, with the motto “Sincerity, Innovations, and Sharing” as our operating principles. PCSC has transformed ourselves into a good neighbor by enhancing our digital services, international co-brand products, our owned products and our lifestyle stores etc.

During the past 40 years, our objective has always been to become the best possible retailer, our stores serving on the front line to provide customers with quality products and services characterized by innovation, quality, safety, and convenience. We continue to open up new dimensions and challenge new possibilities in Taiwan’s retail services industry.

Company name	President Chain Store Corporation
Number of employees	8,101 ¹ (head office and our retail stores) and 36,932 employed in franchise stores
Year established	1978
Chairman	Lo, Chih-Hsien
President	Huang, Jui-Tien
Location of headquarters	2F, No. 65, Dongxing Rd, Xinyi District, Taipei City, Taiwan
Capital	NT\$10,396,222,000
Total number of stores	5,369 stores
Number of products and services	Products: Apx. 4300 Services: Apx. 600

As of December 31, 2018

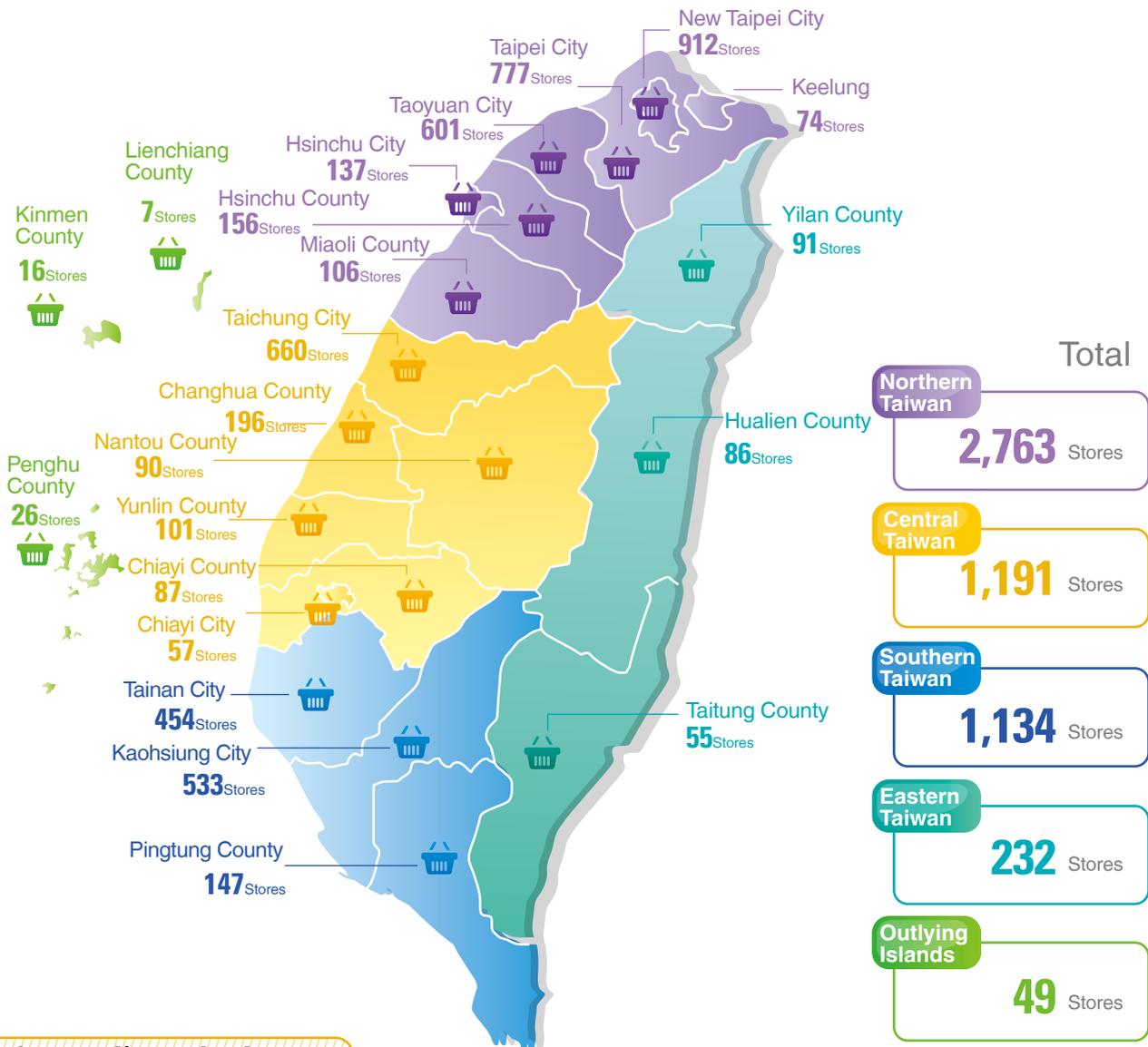
¹As of December 31, 2018. The number used for franchise employees was taken from Labor Insurance documents by May 2019.



2 About PCSC

Stores

Many people have this experience. When we are travelling, arriving in a new city, walking on the streets at night after getting off work, or looking for something to do after school to pass the time, we always see one of 7-ELEVEN's warmly-lit signs on a street corner welcoming us. Since our first store opened its doors 40 years ago, PCSC has continued to expand. Employing a high-store density and diversified operations model, we have made inroads into the streets and communities of Taiwan's urban and rural areas. Our stores are ready at all times to meet customer needs with a complete range of quality products and services. As of late 2018, we had over 5,300 stores dotting northern, central, and southern Taiwan as well as its outlying islands. 7-ELEVEN has become a part of Taiwan's collective memory, lighting up and bringing warmth to the lives of countless individuals.



Operating strategy

PCSC is "pledged to become the best retail operators by providing the most convenient services in life and excelling at social responsibility". In 2018, our foundation continued to consist of people, store, product, system, logistics, policy, and culture as we employed short-term and long-term business development plans to continue expanding operations, creating value, enhancing our competitive edge, and boosting our sustainable development capabilities.

Long-term and short-term business development plan

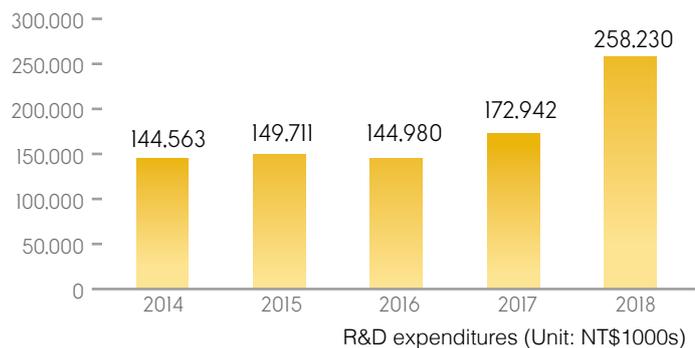
1. Short-term business development plan

- (1) Continue business district integration and establish a competitive base of large stores.
- (2) Strengthen the autonomy of individual stores and create an advantage through differentiated operations.
- (3) Enlarge the integration of the physical and the virtual and seize business opportunities in the virtual service area.
- (4) Optimize the operations base, establishing power for mid- and long-term development.

2. Long-term business development plan

- (1) Optimize the franchise mechanism to create a win-win situation.
- (2) Thoroughly implement value marketing to improve the consumer experience.
- (3) Implement lean operations and make full use of resources.
- (4) Integrate the group's resources and seek stable profits.
- (5) Actively develop talented people to ensure sustainable operations.

As an industry leader, we not only endeavor to continue offering our current gamut of quality products and services but also look for innovative new products, services, and even store configurations. In 2018, PCSC invested NT\$258,230,000 in development and R&D.



Business performance

In 2018, the global economy was turbulent, the basic wage in Taiwan continued to increase, and businesses continued to face significant challenges. Despite an unstable external operating environment, PCSC continued to serve as a creative, convenient, safe, and welcoming community center, offering consumers innovative and convenient products and services. Together with the hard work of our domestic and overseas subsidiaries, PCSC achieved operating revenue of NT\$154,074,731,000 and net profits after taxes of NT\$10,230,390,000 for parent company only in 2018, surpassing previous years and setting a new high. Financial performance is shown below. Please refer to the PCSC consolidated and individual financial statements publicly available on the Market Observation Post system for details of 2018 financial performance.

2018 PCSC non-consolidated revenue performance/Direct economic value created

Operating Revenue	154,074,731
Gross Profits	53,012,367
Income tax expense	2,227,402
Net profits after tax	10,206,388
Earnings per share	NT\$9.8
Dividend per share	NT\$8.8
ROE (%)	23.77%
Total assets	89,246,516
Total liabilities	53,994,466
Total equity	35,252,050

Unit: NT\$1000s

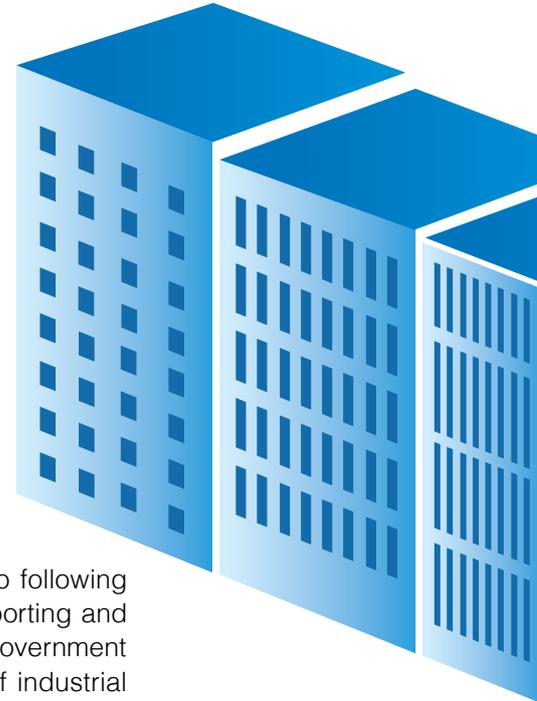


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Direct economic value distribution

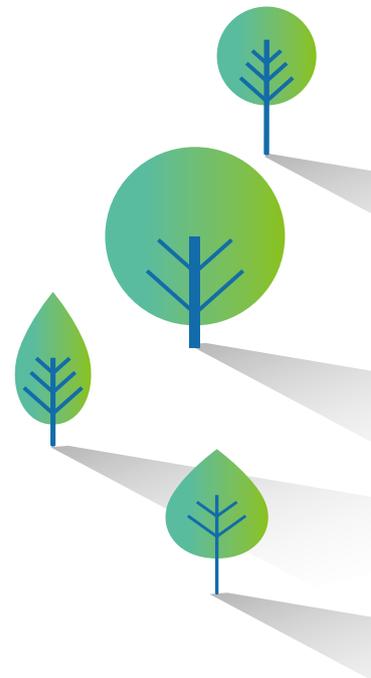
Operating costs	101,062,364
Employee wages and benefits	7,131,255
Payments to providers of capital	Interest: 42,971
	Dividends: 25,990,556
Payments to government	2,423,894
Community investments	41,077

Unit: NT\$1000s



Tax Policy

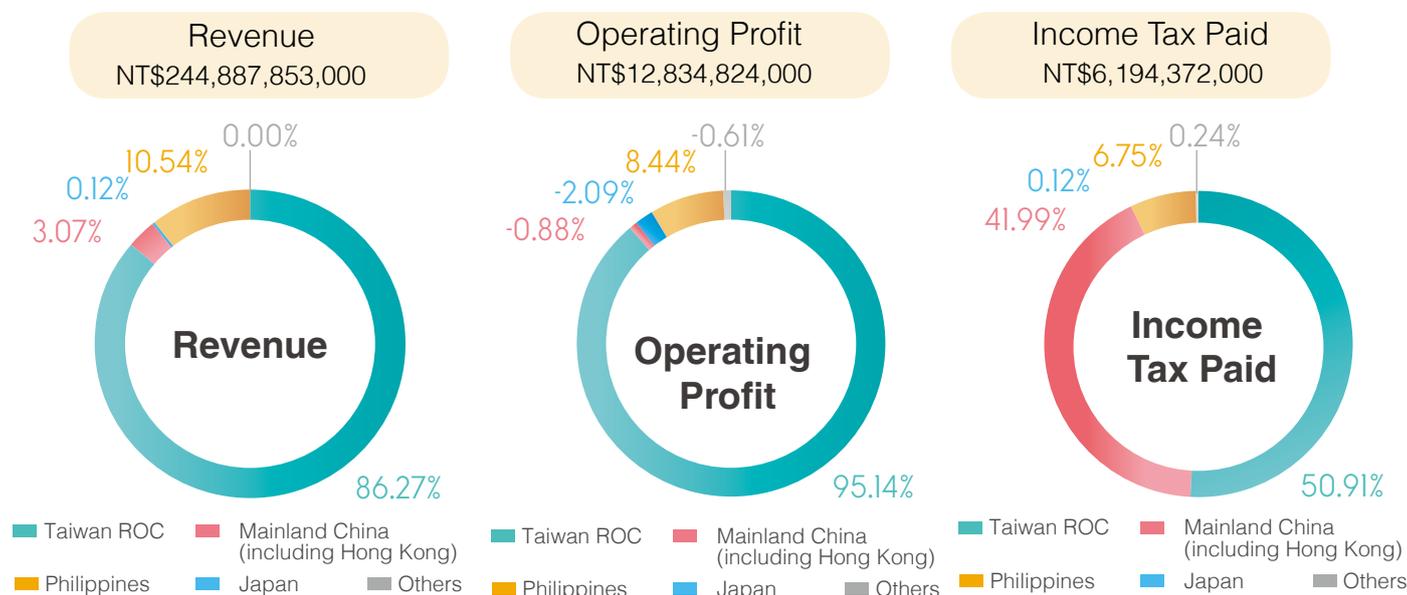
In conformity with the core values of our tax policy, PCSC is committed to following the tax laws and regulations of the areas in which it operates, honestly reporting and paying its taxes, fulfilling its tax payment obligations and supporting the government as it promotes sustainable development policies, including in the areas of industrial innovation, R&D, and reinvestment. PCSC commits to ensure transactions with related parties are conducted at arm's length and always in compliance with the internationally recognized OECD principles of transfer pricing. We do not use secrecy jurisdictions or so-called "tax havens" that are meant for tax avoidance or aggressive tax planning. We carefully assess the risks associated with changes in tax laws and regulations and major transactions and drawing up countermeasures to deal with them. These core values and spirit are the foundation of our tax policy.



PCSC Tax Policy

1. Honestly reporting and paying tax: Carrying out its social responsibilities, including following the tax laws and regulations of the countries and regions in which it operates, honestly reporting and paying its taxes, fulfilling its tax payment obligations.
2. Assessing and handling tax risk: Carefully assessing the risks associated with changes in tax laws and regulations and major transactions and drawing up countermeasures to deal with them. It should always take into consideration the tax impacts and relevant tax risks when making business decisions and in the course of daily operations
3. Ensuring open and honest communication: Maintaining communication and relationships of mutual trust and respect with tax authorities, working with them to discuss and resolve tax matters where appropriate for better understanding.
4. Information transparency: Tax information disclosure on financial statements is to be carried out in accordance with relevant regulations and standards.

For detailed information on the total consolidated operating revenue, operating profit, and income taxes paid of President Chain Store Corporation and its affiliate companies in different countries/regions for the year 2018, please refer to the PCSC Consolidated Financial Statement.



Note:

The income tax paid in 2018 covered part of income tax payable from the previous year. In 2017, the income before tax increased significantly due to a one-off transaction of selling an affiliated enterprise in China (PRC, incl. HK). The capital gains tax from this transaction were listed as income tax, affecting the amount of income tax payment for 2018. If the capital gains tax is excluded, the percentages of the taxes paid by PCSC in various places in 2018 are as follows: Taiwan ROC 85.72%, Mainland China (including Hong Kong) 2.32%, Japan 0.19%, the Philippines 11.36%, others 0.40%. The distribution of percentages is about the same as that of operating income and operating profit.

Income information

Unit: NT\$1,000,000s

Financial disclosure	2018	2017
Profit before income tax	15,402	41,382
Income tax expenses	3,658	9,064
Income tax paid	6,194	2,107

Information source: 2018 PCSC Consolidated Financial Statement

Effective tax rate explanation

The effective tax rate for 2018 and was lower than the GICS industry average for retailers of food and consumer staples, because Taiwan was the primary source of operating profits and the tax rate for profit-seeking enterprises in Taiwan in 2018 and 2017 was 20% and 17%, respectively. Although some operating profits were from Mainland China (Tax rate 25%) and the Philippines (Tax rate 30%), the overall tax rate of PCSC was still lower than GICS industry average tax rates.

Year	2018	2017	Industry average tax rate (Note 1)
Reported tax rate (%) (Note 2)	24%	22%	26.3%
Cash tax rate (%) (Note 3)	40%	5%	26.6%

Note 1: Industry average tax rates were taken from GICS's (Global Industry Classification Standard) average tax rates for the food and consumer staple retailers.

Note 2: Reported tax rate (%) = income tax expenses/profit before income tax

Note 3: Cash tax rate (%) = income tax paid/profit before income tax. The income tax paid for 2018 covered part of income tax payable from the previous year. In 2017, the profit before income tax increased significantly due to a one-off transaction of an affiliated enterprise and the part of the relevant income taxes were paid in 2018. If the effect of the one-off transaction is excluded, the cash tax rates for 2018 and 2017 are 24% and 21%, respectively.



2 About PCSC

External Participation

As the leader in the Taiwan's convenience store industry, PCSC actively participates in industry association events, fulfilling our responsibility to the industry and society as a whole, exchanging experience, discussing technologies, and proposing issues along with up- and downstream companies in the industry as we strive to do our part and maximize our positive influence. We show concern for various CSR issues through our participation in external organizations, focusing primarily on sustainable operations, food safety, and sustainable environment.

In the aspect of food safety, we serve as the President of the Taiwan Delica Foods Development Association (TDF). PCSC donates NT\$5 million every year as operating expenses for the association. We lead Team Merchandising fresh food producers in the establishment of supply chain management platforms, raw material development, and product quality control, including standardization, regulation, quality and source management, new manufacturing process, equipment, technology assessment and introduction, public relations such as communication with government agencies/research organizations etc. We hope that working together with other members of the industry, we can provide fresh, quality food products to consumers in Taiwan using cutting edge technology. In the area of business sustainability, we serve as a supervisor for the Business Council for Sustainable Development of Taiwan (BCSD-Taiwan) and participate in many trade associations and other associations to learn the latest information on sustainable development and bring to bear our influence to support the sustainable business development in Taiwan. Other than taking part in business associations and alliances, PCSC does not make any contribution or participate in other lobbying or interest groups.

List of External Public Associations Memberships	Capacity	Focus Topic	2018 membership fees/contribution
Taiwan Delica Foods Development Association	President 	Food Safety	NT\$5,000,000/year
The Business Council for Sustainable Development of Taiwan	Member 		NT\$120,000/year
Marketing Communications Executives International	Member 		NT\$15,000/year
Taipei Department Stores Association	Member 		NT\$4,500 semiannually
Chinese National Association of Industry and Commerce, Taiwan	Member 	Business Sustainability	NT\$20,000/year
Taiwan Chain Stores and Franchise Association	Director 		NT\$30,000/year
Taiwan Coalition of Service Industries	Director 		NT\$5,000/year
Chinese Non-Store Retailer Association	Director, Supervisor 		NT\$20,000/year
Zero Energy Building Technology Alliance	Member 	Environmental Sustainability	None (Note)

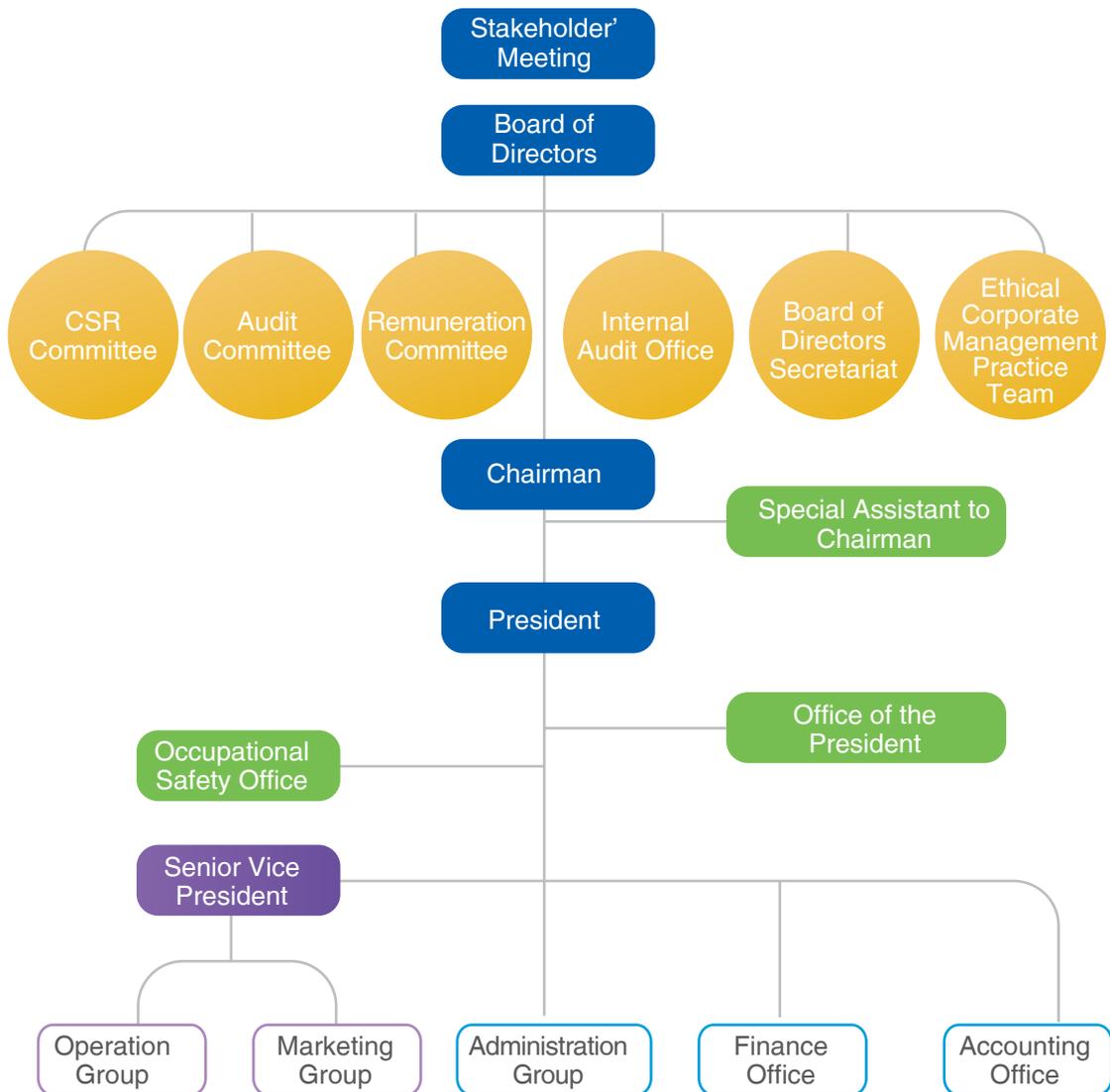
(Note) This union has collected NT\$10,000 per year for the past two years, but after that the organization's surplus was sufficient so that no further fees were collected as dues.

2.2

Corporate Governance

Governance Framework

PCSC places great emphasis on transparency of operations and corporate governance. We regard the enhancement of ethical corporate management as our long-term operating goal. As a result, we establish a good governance system and a sound supervision function for the Board and strengthen our management mechanism. In 2018, PCSC was ranked in the top 5% in TWSE's fourth Taiwan Corporate Governance Evaluation System and was selected for the Taiwan Corporate Governance 100 Index. It had continued to be selected for FTSE4Good Emerging Index and was selected among the stocks making up the MSCI Global Sustainability Indices. To enhance corporate governance, on August 3, 2018, the Board passed a resolution to add a Board of Directors Secretariat directly under the Board of Directors and appointed the vice president of the President's Office, Hsieh-Hung Hui-tzu, to assist the Board of Directors Secretariat carry out its oversight and management duties, providing directors (including independent directors) the information they need to perform their duties, assisting directors (including independent directors) to adhere to laws and regulations, and performing tasks related to Board of Directors and stakeholder meetings in accordance with the law.





2 About PCSC

Board of Directors

PCSC's Board of Directors consists of 13 directors (including 3 independent directors). They serve 3-year terms and a nomination system is used whereby stakeholders select names from a list of candidates. The average age of board members is 59 and members includes two females. Their education, professional backgrounds, and remuneration can be found on pages 15-20 of the 2018 Annual Report. This can be downloaded from the Market Observation Post System or from the investor relations website (<http://www.7-11.com.tw/company/ir/>). Per the regulations set forth in the "Regulation Governing Procedure for Board of Directors Meetings", to avoid conflicts of interest among those at the highest levels of governance for the Company, Board members who find they or a juridical person they represent has interest in a matter before the Board which could adversely impact Company interests can state their opinion and provide consultation, but are not permitted to participate in discussion or voting and must recuse themselves during discussion and voting. They are also not permitted to serve as proxy for other directors. Moreover, the Board of Directors must meet at least once per quarter to discuss the Company's business performance and development strategies as well as major investment issues. From 2018 through the end of February 2019 (prior to the printing of the 2018 Annual Report), the Board met 8 times with an average attendance rate of 99%.

The Audit Committee, Remuneration Committee, and CSR Committee (established in 2018) are under the Board of Directors. They play top-down management and supervisory roles to enhance and maximize the Company's corporate governance, ethical management, and CSR performance.

Audit Committee

Based on the regulations of the "Regulations Governing the Exercise of Powers by Audit Committee of Public Companies", PCSC established an Audit Committee on June 21, 2012. The Audit Committee assists the Board of Directors in its supervisory duties and is responsible for the duties set forth in the Company Law, the Securities and Exchange Act and other relevant laws and regulations. The Committee is composed of three independent directors with Shu, Pei-Gi serving as convener. It meets at least once per quarter. From 2018 through the end of February, 2019 (prior to the printing of the 2018 Annual Report), the Board of Auditors held 5 meetings with an attendance rate of 100%.

Remuneration Committee

Based on the dictates of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter", PCSC established a Remuneration Committee on August 19, 2011. It primarily assists the Board of Directors in implementing and assessing the Company's overall remuneration and benefits policy as well as remuneration for directors and managers. The Committee is composed of three independent directors with Wang, Wen-Yeu serving as convener. It meets at least 2 times per year. From 2018 through the end of February 2019 (prior to the printing of the 2018 Annual Report), the Committee held 4 meetings with an attendance rate of 100%.

CSR Committee

In order to promote and implement CSR, the Board passed a resolution to establish a CSR Committee directly responsible to the Board and passed PCSC Corporate Social Responsibility Committee Organizational Procedures on December 12, 2018, incorporating an independent director mechanism. It is composed of six members, three are independent directors. The Committee is responsible for proposing and implementing concrete plans related to CSR policies and reporting status on a regular basis. For details on job responsibilities, please refer to PCSC's CSR Committee organizational procedures.

Implementation: PCSC's CSR Committee has been promoting CSR concepts in concrete ways for many years and convenes a minimum of two times each year. In 2018, the Committee held regular meetings on January 4 and October 9.

Ethical Corporate Management

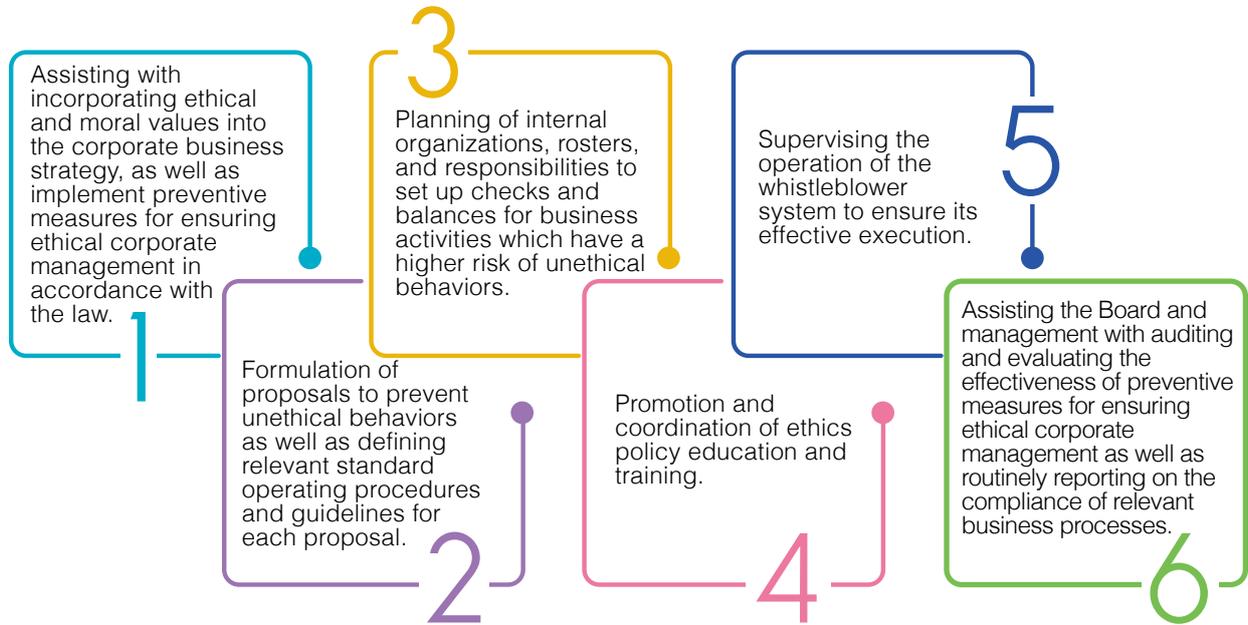
"Sincerity" is an integral part of PCSC's business culture. As such, sincerity in operations is a point upon which we refuse to compromise. Anti-corruption, transparency, and responsibility are basic management principles at PCSC. Keeping in step with worldwide trends and legal requirements, in 2015, PCSC established its "Ethical Corporate Management Practice Team" which is under the Board of Directors and is responsible for setting ethical management policies, molding corporate culture, and establishing good risk management mechanisms for healthy, sustainable corporate operations and development. Our vision is to "become a top choice among stakeholders seeking sincere collaboration. In terms of internal ethical corporate management, PCSC drafted the "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles", and "Ethical Corporate Management Operating Procedures and Code of Conduct" and compiled an online course in ethical corporate management. In 2015, the Company required all employees receive and complete PCSC's business ethical training courses, and the training is provided to new employees every year to enhance employee awareness. We also checked with stores to ensure that store managers completed the training. As of December 31, 2018, 100% of back office personnel and store managers had completed the course. Members of the Ethical Operations Team and affiliated enterprises promote the implementation of and guidelines for ethical management during two regular project meetings held yearly. Employees can also offer feedback and suggestions to managers whenever they like through the Joint Service Center, email, dedicated stakeholder areas on the official website, and the internal proposal system. By drawing up ethical management and trade secret behavior code of conduct and self-discipline pact signing events, and internal communication platforms to promulgate and promote relevant information, the team promotes good behavior models throughout the employee base. The team periodically reports to the Board of Directors on the status of its work. To promote ethical operations outside the Company, PCSC has established prevention measures to actively and openly express our commitment to ethical operations. In PCSC supplier agreements, a clause requiring "honesty and no acceptance of bribes" was added in 2013, requiring suppliers to adhere to ethical operations and preventing dishonest business practices, protecting the common interests of both parties. Beginning in 2016, clauses related to corporate social responsibility were added to agreements with major suppliers. If suppliers violate the policies, causing a discernable impact to the source community's environment or society, the contract can be suspended or terminated at any time. In 2018, PCSC had 1116 new supplier contracts and 503 new standard purchase contracts. All included sign-offs on "Agreement of the Ethical Corporate Management and the Corporate Social Responsibility", implementing PCSC core values. In addition to our core value of ethical operations, we are also committed to proper disclosure of information. In May of each year, we disclose the status of the Company's promotion of ethical operations on our official website and in our annual report. Both PCSC's Internal Audit Office and Integrated Services Center have set up exclusive reporting hotlines. Stakeholders can also report violations through the stakeholder section of our website. In regard to stakeholder suggestions, we have a complete system and mechanisms to ensure stakeholder feedback is followed up properly. After stakeholders send their opinions by email through our website, messages are passed through the system directly to the responsible party, who is then required to update the status of the case within a specified period of time. PCSC keeps track of the number of reports received each month and the status of each case.

PCSC adheres to ROC laws and regulations governing listed companies and business practices. In 2018, no incidents involving corruption or bribery or breach of fair trade occurred. From 2015 to 2018, there were no incidents of political contributions or other donations given to candidates, election organizations, or activities. In 2017, the Fair Trade Commission claimed in 2017 that our franchise agreement does not offer complete disclosure of information and set a fine of NT\$5 million. This case is currently under administrative appeal. In addition, we rigorously assess contribution amounts and recipients.



2 About PCSC

Ethical Corporate Management Practice Team



Risk Management

PCSC commits to maintain a comprehensive system of risk management, which covers the entire group and all subsidiaries. Every person, from the Board of Directors and management at all levels to staffs, participates and promotes risk management. In addition to respecting all applicable laws and regulations, PCSC also proactively identify, analyze, assess, monitor and respond to potential risks in our business operations with consideration of the nature and impact level of risks. We also keep improving our countermeasures handling these risks. PCSC ensures to achieve our strategic goals while effectively managing and controlling the relevant potential risks. The responsible units and the implementation of risk management for PCSC's primary risks are as follow:

Risk type	Implementation of risk management	Responsible unit
Strategic operational risk	Business groups and subsidiaries plan and assess risk before deciding on investment and operations. The President's office periodically performs analyses of related indicators and holds PCSC and affiliated enterprises quarterly meetings. There is also periodic oversight of specific types of affiliated enterprises cases with tracking and analysis of business results with timely adjustments made to operation strategy direction based on changes in market competition and consumer trends to ensure that each business unit's operational strategy conforms to the operational goals and vision.	Office of the President
Finance, liquidity, and credit risks	PCSC's finance office takes laws, policy and market changes into consideration when setting various strategies, processes and indices, periodically analyzing and assessing changes to related risk and taking appropriate countermeasures to reduce the Company's overall potential risk.	Finance Office

Risk type	Implementation of risk management	Responsible unit
Market risks	<p>Various business units, based on function, analyze and assess major domestic and foreign policy, law and technological changes and adopt appropriate countermeasures to reduce future potential operating risk. Moreover, PCSC also has an inter-division Regulation Identification Committee and periodically holds "Regulation Identification Meetings" "to keep abreast of the newest changes to laws and regulations so as to be able to adopt appropriate countermeasures. Additionally, each unit's supervisors also establish a "Crisis Management Team" to effectively control and manage any potential or current market risk or crisis.</p>	Various business units/ Regulation Identification committee/crisis management teams
Food safety risk	<p>PCSC attaches a great deal of importance to consumer health and safety and has made food safety its top priority and continues to invest each year to ensure rigorous quality control is maintained.</p> <p>Because the existence of food safety risk can seriously impact the Company's image and impact income and profits, a product safety process controls mechanism has been set up to enhance management of the supply chain as a long-term effort on the part of the Company</p> <p>Countermeasures:</p> <ol style="list-style-type: none"> 1. Establishing the Merchandise Safety Committee and holding regular meetings to discuss such topics as government laws and regulations, contract manufacturers and supplier assessment deficiencies, product safety information, food safety testing programs, and implementation progress. 2. Establishing the Product Safety Information Collection and Inventory Tracking Operational Standards, collecting relevant product safety information and set up inventory and tracking procedures to ensure the safety of Company products. 3. Using measures like contractual cooperation, production site management, ingredient tracing mechanisms and systems, supplier grading, management and on-site assessment system, distribution centers and periodic store checks, as well as occasional sampling of raw materials and finished products, to stay on top of the entire supply chain from production to store. We are continually setting up rigorous food safety protection networks for our consumers. 	Marketing groups/ Operations group
Risks related to Maintaining franchise system order	<p>To keep individual shops growing and the overall operations of the Company stable, PCSC continues to optimize its franchising mechanism, improving the remuneration to franchisees, and keeping franchises in good order. This is another adaptive measure the Company is taking.</p>	Marketing groups/ Operations group
Risks related to demographic structure changes	<p>Our major area of operations is the region of Taiwan, but in recent years, Taiwan has been faced with such issues as a steady drop in population growth, an acceleration in the aging of the population, and a declining birthrate. Convenience stores and logistics services, the important parts of our business, are both labor intensive. Thus, we consider the decrease in the labor force to be a risk for us. Countermeasures:</p> <ol style="list-style-type: none"> 1. Continuing to keep tabs on changing trends in consumer groups and develop products needed by senior consumers to take advantage of related business opportunities. 2. Hiring re-employed women, middle-aged and senior workers. 3. Taking advantage of technological developments, such as AI, and optimize business structure and processes, and human resource allocation at stores to increase efficiency and lower personnel costs. 4. Incorporating automation of warehousing processes and ordering systems in logistics to increase operational efficiency and reduce the need for manpower. 	Entire Company
Climate risks	<p>PCSC has integrated our climate risk management into the extant risk management framework, in which each department identify climate risks and proposes countermeasures based on their functions. Climate risks include transitional risks from pertinent laws and regulations as well as physical risks, such as increases in the seriousness of extreme weather events and dramatic changes in weather patterns. For details, please refer to Chapter 6 "Green Trailblazer in the Neighborhood".</p>	Each business unit

The Internal Audit Office sets the annual audit plans, process and methodology of self-inspection in accordance with the applicable laws and regulations and based on the result of risk assessment. Through the implementation of audit plans and self-inspection, we constantly manage the above types of potential risks, and periodically report to the Board of Directors.



2 About PCSC

Emerging risks

In order to stand firm in this fast-changing retail food industry, PCSC places great importance on significant social, economic, and environmental trends to better control risks that might affect the Company's profits and sustainable operations. PCSC has integrated the way we identify and respond to emerging risks into our risk management structure. The following are emerging risks that have been identified:

	Emerging risks	Future impacts	Action Plans
Demographic structure changes	Human resource has been an important issue for PCSC's retail stores and logistics services. Since Taiwan has been facing significant demographic changes due to the decreasing birth rate and population growth rates as well as an aging population, PCSC expects the decrease in labor force will have great impact on the labor-intensive industries like us.	<ul style="list-style-type: none"> The decrease in the labor force and the aging population will impact on PCSC's recruitment, employment, personnel costs, and work allocation in the future. The aging society also means the portion of aging consumers will increase, which will have a substantive effect on the development of products as well as on the services offered at our stores. 	PCSC keeps close watch on changing trends of consumer groups and labor force composition. In response, PCSC develops products suitable for senior citizens. To achieve operational efficiency, lower personnel costs and workforce needs, we have adjusted our business structure and process through hiring re-employed women, middle-aged and senior workers, as well as using AI technologies and logistics automation.
Stricter food safety laws and regulations	In response to food safety issues and to meet the expectations of consumers for safe, health food, in recent years, the government has strengthened food safety mechanisms, steadily expanded the management organizations, and strictened relevant laws and regulations. Considering the growing contribution of food products to PCSC's revenue, stricter food safety laws and regulations will increase the cost of product development and legal compliance in the future.	<ul style="list-style-type: none"> Laws and regulations about food safety and product labelling (e.g. "Sanitation Standards for Contaminants and Toxins in Food", "Sanitation Standards for Microbiological in Foods", and "Guidelines for Food Safety Assessment and Labeling of Genetically Modified Foods") have expanded their scope and raised the standards, PCSC's compliance costs including product development, testing and suppl chain management, will be increased. Higher food safety awareness of consumers has increased demands for products complying with the law. In addition, involving in a food safety scandal would seriously harm PCSC's image and could even result in damage compensation and operational losses. 	PCSC emphasizes on raw material sourcing. We requires our suppliers for agricultural raw materials used in private brand products should adhere to our procurement standards. We also coach these suppliers to set up the "Origin Management Centers", obtain certificate of organic production or T-GAP (Taiwan Good Agricultural Practice to ensure the quality of materials. In the areas of product development and quality control, PCSC keeps updating testing requirements in accordance with the latest laws and regulations. In light of the unknown risks that GMO foods could have on human health, PCSC tracks materials used in private brand products, and aims to satisfy customer needs while adhering to relevant laws and regulations.

Crisis management

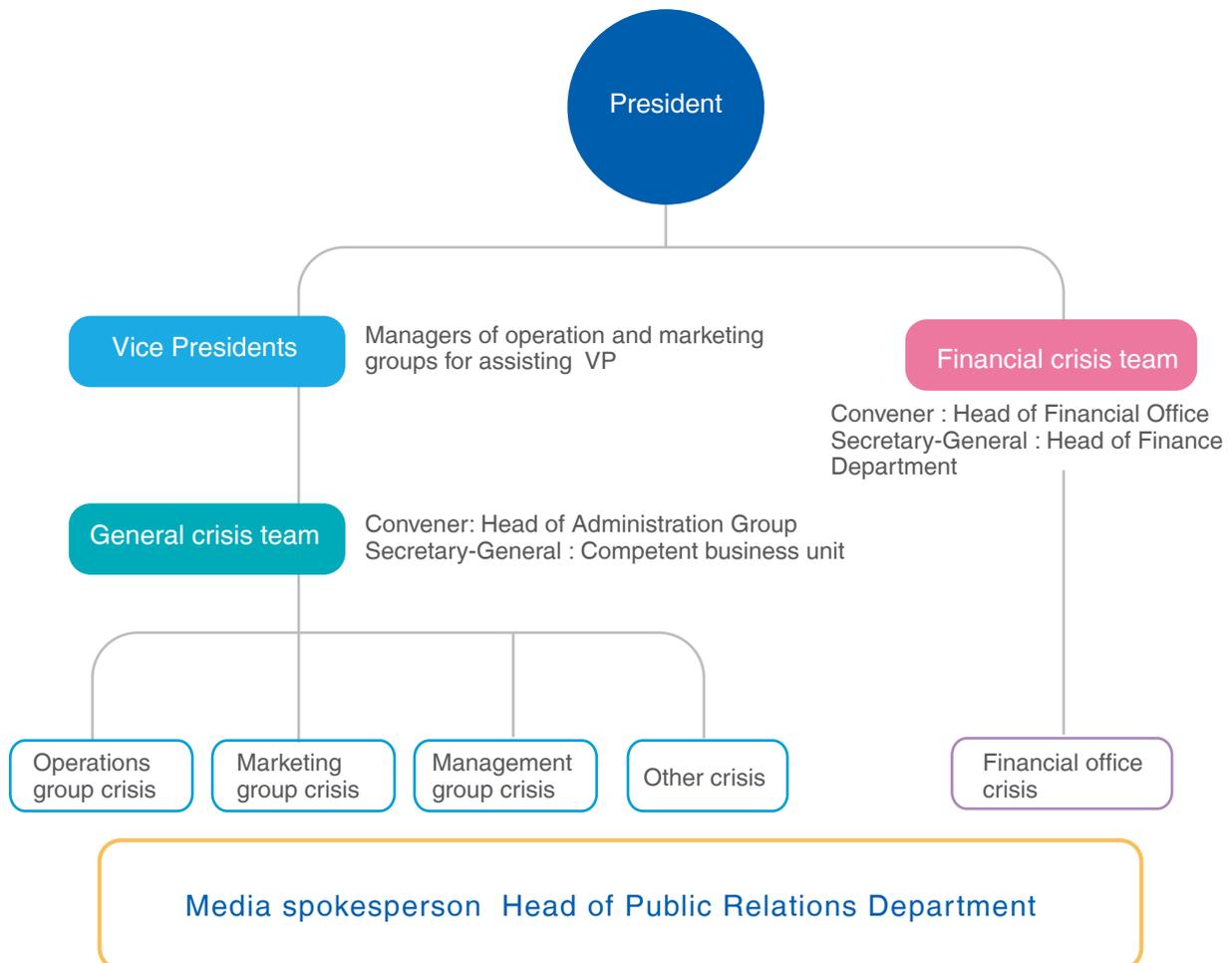
In addition to setting up a sound crisis management system, PCSC has also made all preparations necessary to handle any crisis and effectively reduce any impact and losses, so that the Company continues to make decisions efficiently and to operate stably.

In 2013, the Company established a cross-departmental "Crisis Management Team" and, in 2014, published a 3rd edition of its "PCSC Crisis Management Handbook" which primarily refers to Uni-President Enterprises' (the parent company) crisis handling principles to enhance and update the structure. It lays particular emphasis on the spirit of being responsible and proactive and includes descriptions of duty groups, grasping business, inter-unit communication mechanisms and so forth. Moreover, to ensure that the responsible units are able to quickly find a reference when an emergency does occur, types of crises

are categorized, such as product quality discrepancies and false advertising. Business units are clearly divided into five categories based on the nature of their work, including the Operations Group Crises, Marketing Group Crises, Financial Office Crises, Administration Group Crises, and Other Crises. These serve as the basis for an internal crises notification mechanism for guidelines for preventing, managing, and resolving when the Company is faced with a crises.

In order to enhance the timeliness and effectiveness of our crisis management process, the units that saw the most crisis situations in 2018, i.e., the Operations Group and Marketing Group, made adjustments to their notification mechanisms. All crisis management processes under the vice president, Operations Group, and Marketing Group indicated those are to be responsible for handling crises for the various units, so that when a crisis happens, it is to be classified by region, product, service, or case and the details and management of the crisis ascertained and then reported directly to the direct Group supervisor. The vice president and the Operations Group and Marketing Group heads are to review the details of the crisis and the head of the Administration Group is to designate a manager to serve as the company window for notifying the parent company. In addition, the Company conducted out PCSC affiliate crisis education training and set up a crisis section on the internal communication platform and a broadcasting group of the crisis management team to be more efficient when faced with crisis situations and to enhance employee crisis awareness. In 2018, the Company convened crisis management meetings to deal with news reports about food waste and compulsory ordering. After these issues were dealt with, there were no derivative issues.

Structure of the Crisis Team





2.3

Legal compliance

Compliance Management Approach

PCSC has an inter-division Regulation Identification Committee and periodically holds Regulation Identification Meetings. It provides monthly/quarterly feedback to law and regulation identification reports and risk assessment forms, convenes quarterly Regulation Identification Committee meetings with departments offering feedback on identification status, countermeasures, and giving reports. In the event of a high risk issue, relevant departments are asked to give reports on how it is being dealt with during the meeting and to keep abreast of the newest changes to laws and regulations so as to be able to adopt appropriate countermeasures. Additionally, each unit's supervisors establish a "Crisis Management Team" to effectively control and manage any potential or current market risk or crisis. New risk assessment mechanisms evaluate legal risk by objective quantitative data for better improvement and tracking.

Violations during 2018

The production and sale of PCSC private brand products, including raw material sources, ingredients, product labeling, and product marketing are all governed as required by relevant laws and regulations. For non-private brand products, we work with suppliers to ensure regulatory compliance through communication, testing, and our auditing mechanisms.

Food products sold through PCSC stores must all comply with the Act Governing Food Safety and Sanitation as well as its sub-laws. The sub-laws include "Regulations on Good Hygiene Practice for Food", "Food Sanitation Standards", as well as other relevant laws issued by the Ministry of Health and Welfare. No fines were issued against PCSC in 2018 for violating any of the laws or regulations mentioned above.

In 2018, due to breaches of the Labor Standards Act, Tobacco Hazards Prevention Act, and Trash Clearance Act, partial stores were fined a total of NT\$153,000. The situations were investigated by relevant units, improvements made, and no major losses or follow-up impact occurred. In 2018, no products sold by PCSC violated regulations regarding marketing communications and we did not sell any prohibited or controversial products. Please refer to the 2018 PCSC Annual Report page 57 for more details.

