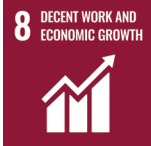


About PCSC



2019 Highlights



Achieved consolidated revenue of NT\$**256,058,888,000** and net profits of NT\$**12,112,109,000** in 2019

Invested NT\$**250,655,000** in development and R&D.

PCSC has a total of **5,655** stores.





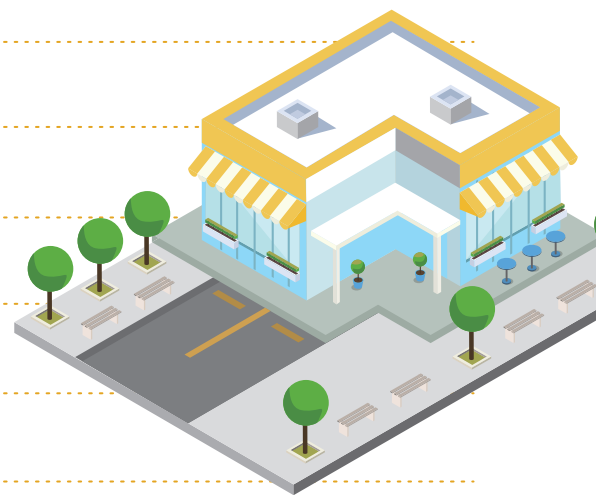
2.1 Operations Overview

Company profile

2018 marked the 40th anniversary of the establishment of PCSC. Throughout our history, we have upheld a business culture characterized by "sincerity, innovation, sharing." We have continued to stay abreast of trends in healthy food and drinks and played our role as retailer by offering diverse, safe, quality, digital services and products. In this chapter, we will disclose the operational scope, tax policies, corporate governance framework, actions in the area of ethical operations, risk management mechanisms, and law compliance of PCSC in 2019, so the public can better understand PCSC's mechanisms for consolidating operations. In addition, we hope to utilize the optimization of our mechanism to continue to offer the public a consistent and quality retail option as we at PCSC continue to shoulder our responsibility in their daily lives.

Scale of the Organization

Company name	President Chain Store Corporation
Number of employees	8,430 ¹ (head office and our retail stores) and 39,284 employed in franchise stores
Year established	1978
Year listed	1997
Chairman	Lo, Chih-Hsien
President	Huang, Jui-Tien
Location of headquarters	2F, No. 65, Dongxing Rd, Xinyi District, Taipei City, Taiwan
Capital	NT\$10,396,223,000
Total number of stores	5,655 stores
Number of products and services	Products: Apx. 4300 Services: Apx. 600



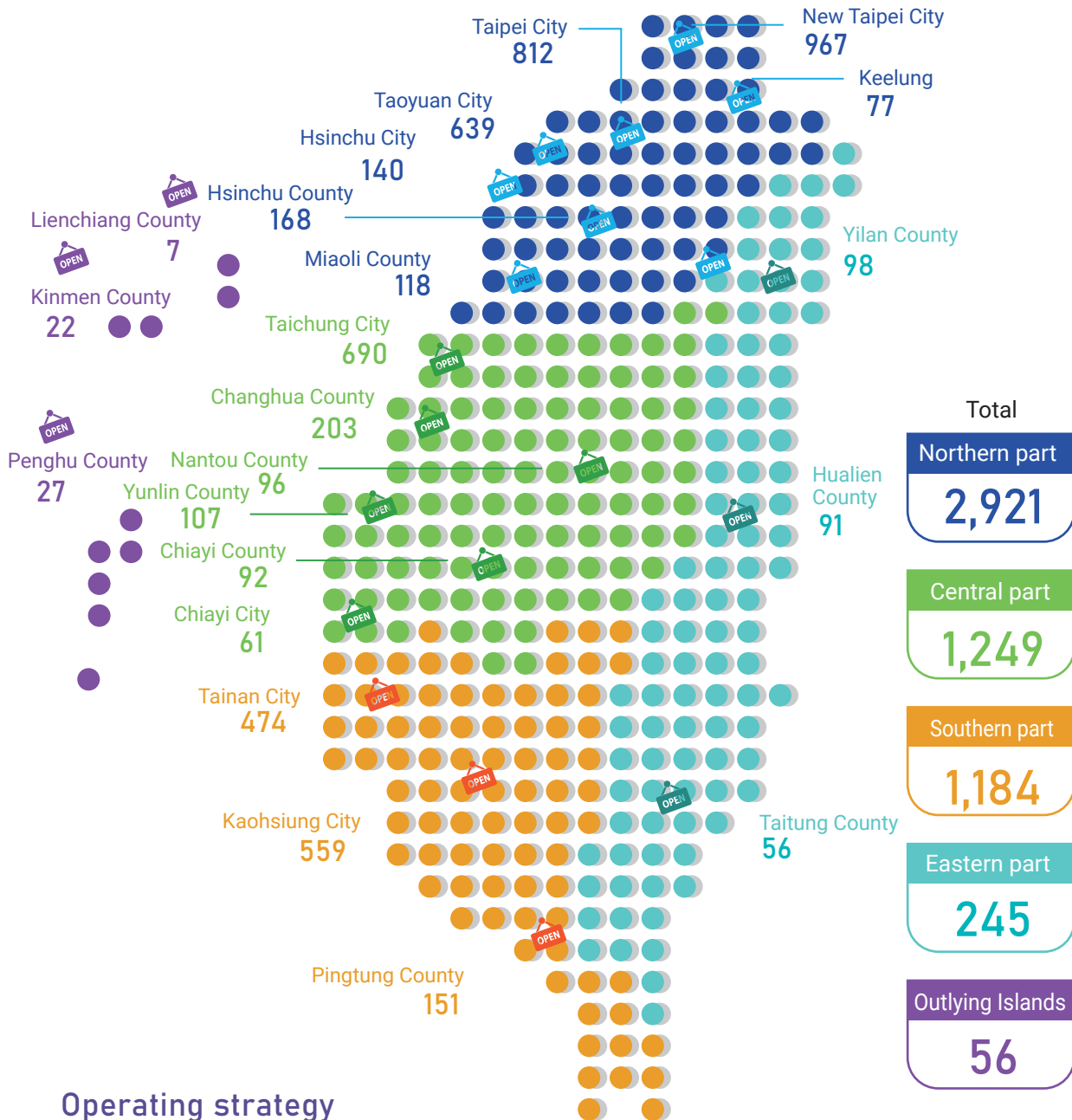
As of December 31, 2019.

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



► Stores

PCSC focused on providing customers service characterized by convenience and peace of mind. As of 2019, we had 5,655 stores, 286 more stores compared to 2018, dotting northern, central, and southern parts as well as its outlying islands. It is our hope that we can continue to expand the scope of services offered by PCSC, so we can meet the needs of customers in a timely manner with a variety of convenient and quality services and to become the "service platform that customers depend on" in their busy, everyday lives.



Operating strategy

In 2019, factors like redirected orders and investors returning from abroad have driven domestic demand in the country. As domestic demand continues to increase, PCSC continues to uphold the principle of providing customers more value for their money in terms of products and shopping experience. In 2019, we continued to develop increasingly better tangible and intangible experiences, further integrating a number of innovative products and services, while continuing to enhance our sustainable development capabilities.



Innovative products and services:

Myship	<p>Myship is a new trading platform which combines cash flow, logistics, and information flow. It provides pickup and payment functions, resolving four main difficulties for individual sellers: organizing shipping information, remittance risks, extra costs, and consolidating accounting orders. PCSC has provided a low threshold and convenient trading channel and a new selling model for small individual vendors on the platform to penetrate the social e-commerce market.</p>
Home delivery service from residents to 7-ELEVEN stores	<p>PCSC took advantage of intensive stores network to work with President Transnet Corp. to promote a more flexible pick up and delivery services. When customers are unable to receive at home, the parcels could be sent to 7-ELEVEN store and be picked up later. PCSC provides a smoother delivery process of last mile for online shopping experience.</p>
Enhancing the performance of our EC supply chain	<p>The development of the EC volume measuring device and different types of packaging materials has allowed us to effectively use spaces in our retail stores. We have also introduced a self-service mechanism that the public can employ to pick up packages, simplifying the delivery and pick-up service process.</p>
ibon App	<p>We work closely with a specialized matching service that allows ibon app members to search among 400 kinds of services, including design, photography, digital marketing, translation, and cleaning services, so that they can satisfy home, business, and personal needs of any size, so that we can become helpers in the lives of our customers.</p>
OPEN POINT membership	<p>PCSC is optimistic about the electronic payment market and has launched the OPEN POINT membership system, a multifunction e-wallet, that accumulates various points and can be used with many payment channels. In addition, to encourage customer loyalty, PCSC integrated 20 of the Group's membership systems to launch an upgraded "OPEN POINT Group Membership ecosystem" to offer a wider range of services and reach more diverse customers.</p>
The future of convenience stores	<p>PCSC was the first to introduce all-new combination + smart stores which blend "self-service experience areas," "mini stores," and "Big7 lifestyle stores" which is an operation model that brings together under one roof the convenience store, coffee, book store, bakery, and draft beer as well as CTBC Bank smart ATMs to offer digital financial services 24/7 as we once again lead the industry in upgrading and redefining what it means to be a convenient stores.</p>
Intelligent vending machines	<p>Intelligent vending machine were an innovative service introduced in 2019. 7-ELEVEN launched the "intelligent vending machine," which incorporates AI technology into the convenience store. Developed for "mini stores", it differs from traditional vending machines that only sell drinks. Intelligent vending machines sell 30 to 40 different products, including frozen desserts as well as fresh and cooked foods. Stores managers can use IoT (Internet of Things) systems to perform remote product control quality analysis and monitor machine status in real time to reduce manpower and operating costs and increase operating efficiency.</p>

▶ 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.

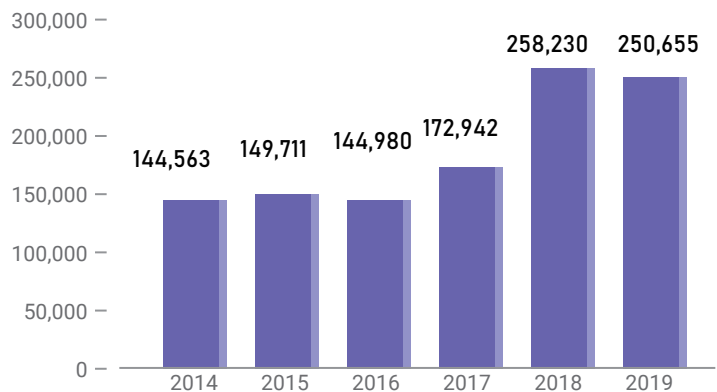


PCSC invested
NT\$250,655,000
in development and
R&D.

In a time when everything from technology, consumer awareness, and the environment are changing quickly, we endeavor to play the role of industry leader, therefore, PCSC continues to invest resources into research and development to offer more product and service categories as well as store types to help us keep up with the latest trends and stay competitive. In 2019, PCSC invested NT\$250,655,000 in development and R&D.

R&D expenditures

Unit: NT\$1000s



Business performance

PCSC has continued to develop better products and services, offering consumers innovative and convenient products and services. PCSC achieved operating revenue of NT\$158,031,567,000 and net profits after taxes of NT\$10,542,860,000 in 2019. Please refer to the PCSC consolidated and individual financial statements publicly available on the Market Observation Post system for details of 2019 financial performance.

2019 PCSC non-consolidated revenue performance/ Direct economic value created

Unit: NT\$1000s	2018	2019
Operating Revenue	154,074,731	158,031,567
Gross Profits	53,012,367	54,177,435
Income tax expense	2,227,402	1,677,606
Net profits after tax	10,206,388	10,542,860
Earnings per share	NT\$9.8	NT\$10.14
Dividend per share	NT\$8.8	NT\$9
ROE (%)	23.77%	29.5%
Total assets	89,246,516	132,464,048
Total liabilities	53,994,466	96,241,167
Total equity	35,252,050	36,222,881

Direct economic value distribution

Item	2018 (Unit: NT\$1000s)	2019 (Unit: NT\$1000s)
Operating costs	101,062,364	103,854,132
Employee wages and benefits	7,131,255	7,162,446
Payments to providers of capital	Interest : 42,971 Dividends : 25,990,556	Interest : 359,593 Dividends : 9,148,676
Payments to government	2,423,894	1,738,137
Community investments	41,077	35,860

Note : Due to 2017 Starbucks Transactions, in 2018, the board of directors approved the 2018 allotment of 25 NT dollars per share in cash dividends of 2017.

Tax Policy

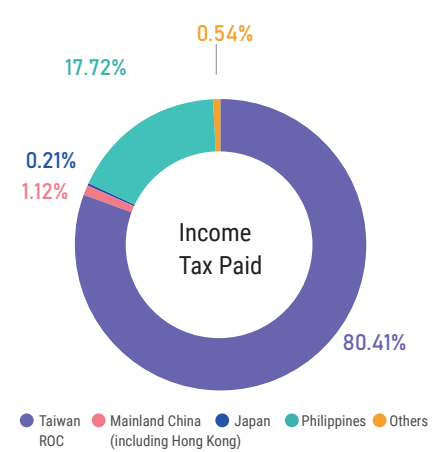
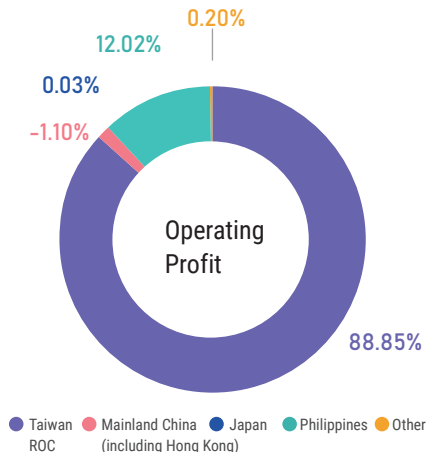
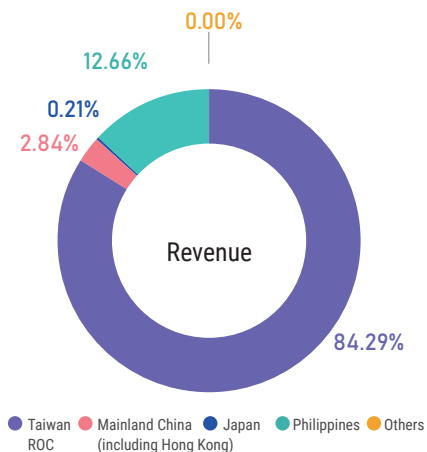
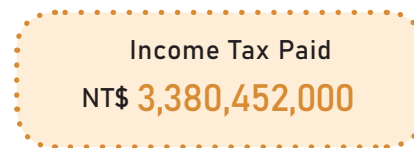
In conformity with the core values of our tax policy, PCSC is committed to following the tax laws and regulations of the areas in which it operates, honestly reporting and paying its taxes, fulfilling its tax payment obligations and supporting the government as it promotes sustainable development policies, including 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.

Consolidated-operating revenues, operating profits, and income taxes paid of President Chain Store Corporation and its affiliate companies in different countries/regions for the year 2019



	Amount (Unit:NT\$1,000s)	Percentage
Taiwan ROC	215,846,655	84.29%
Mainland China (including Hong Kong)	7,270,303	2.84%
Japan	534,494	0.21%
Philippines	32,407,436	12.66%
Others	-	0.00%

	Amount (Unit:NT\$1,000s)	Percentage
Taiwan ROC	11,595,588	88.85%
Mainland China (including Hong Kong)	-143,953	-1.10%
Japan	3,368	0.03%
Philippines	1,569,005	12.02%
Others	25,586	0.20%

	Amount (Unit:NT\$1,000s)	Percentage
Taiwan ROC	2,718,212	80.41%
Mainland China (including Hong Kong)	37,722	1.12%
Japan	7,115	0.21%
Philippines	599,144	17.72%
Others	18,259	0.54%



Income Tax information (Unit: NT\$1,000,000s)

Financial disclosure	2018	2019
Profit before income tax	15,402	15,164
Income tax expenses	3,658	3,052
Income tax paid	6,194	3,380

Information source: 2019 PCSC Consolidated Financial Statement

► Effective tax rate explanation

The effective taxes rate for 2018 and 2019 were lower than the industry average of retailers of food and consumer staples, because Taiwan was the primary source of operating profits and the income tax rate for profit-seeking enterprises in Taiwan was 20%. Although some operating profits were from Mainland China (Income tax rate 25%) and the Philippines (Income tax rate 30%), the overall tax rate of PCSC was still lower than GICS industry average tax rates.

Year	2018	2019	Industry average tax rate ^(Note 1)
Reported tax rate (%) ^(Note 2)	23.8%	20.1%	26.3%
Cash tax rate (%) ^(Note 3)	40.2%	22.3%	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 2019 covered part of income tax payable from the previous year. In 2018, the income tax increased significantly due to a one-off transaction of an affiliated enterprise. If the effect of the one-off transaction is excluded, the cash tax rates for 2018 is 24%.










External Participation

PCSC continues to self-evaluate itself as it strives to enhance operational performance and service quality. PCSC participates in industry association events, working with others by exchanging experience and pooling our wisdom, bringing together the energy of various businesses and others in the industry to strive toward enhanced 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 our consumers using cutting edge technology. In the area of business sustainability, we 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 the country. Other than taking part in business associations and alliances, PCSC does not make any contribution or participate in other lobbying or interest groups.



Table: List of industry associations in which PCSC is a member

List of External Public Associations Memberships	Capacity	Focus Topic	2019 membership fees/contribution (Unit: NT\$)
Taiwan Delica Foods Development Association	President 	Food Safety	5,000,000
Taiwan Quality Food Association	Director 		10,000
The Business Council for Sustainable Development of Taiwan	Member 	Business Sustainability	120,000
Marketing Communications Executives International	Member 		15,000
Taipei Department Stores Association	Member 		9,000
Chinese National Association of Industry and Commerce, Taiwan	Member 		20,000
Taiwan Coalition of Service Industries	Director 		5,000
Taiwan Chain Stores and Franchise Association	Director 		30,000
Zero Energy Building Technology Alliance	Member 	Environmental Sustainability	None ^(Note)

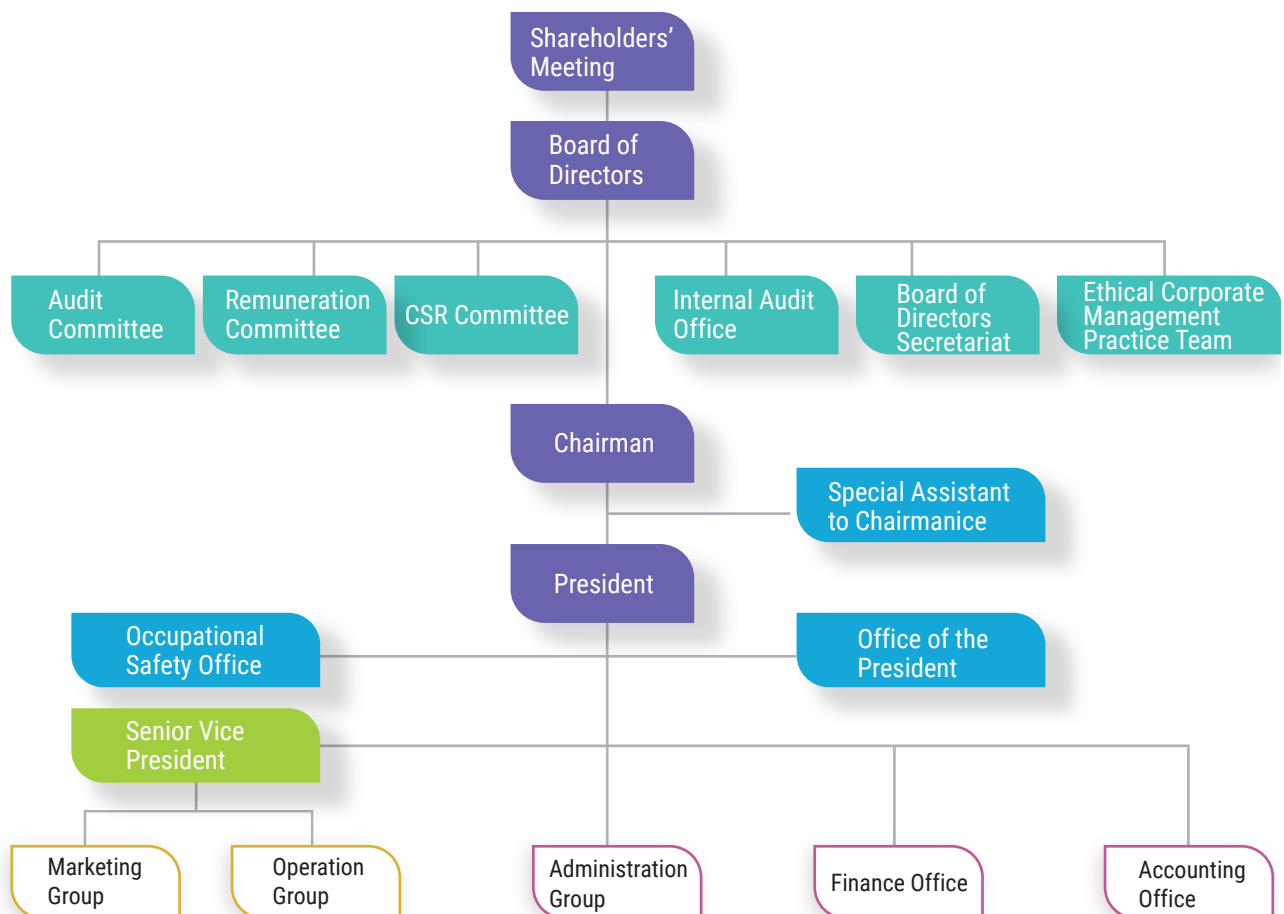
Note : This union has collected NT\$10,000 per year for the past two years, but after that the organization's surplus was sufficient so that no further fees were collected as dues.



2.2 Corporate Governance

Governance Framework

PCSC believes that sound corporate governance is crucial to the stable development of a business. PCSC's sound and rigorous corporate governance framework is built on distinct layered management and, to deal with specific major issues, it designates functional committees or task forces, so that PCSC can stand immovable and continue to grow. In 2019, PCSC ranked in the top 5% in the Taiwan Corporate Governance Evaluation System, and was selected again by the TWSE Corporate Governance 100 Index, and FTSE4Good TIP Taiwan ESG Index, FTSE4Good Emerging Markets Index, MSCI Global Sustainability Indexes, and MSCI Global SRI Indexes. In addition, PCSC was listed on the Dow Jones Sustainability World Index and Emerging Markets Index for the first time.



► 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 shareholders select names from a list of candidates. PCSC board is characterized by rich diversity. The average age of board members is 59 and members includes two females. The backgrounds of directors range from business administration, economy, marketing, accounting, law to information engineering. Their education, professional backgrounds, and remuneration can be found on pages 17-21 of the 2019 Annual Report ^{Note}.



In order to ensure the independence of board, 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. In 2019, the Board met 8 times with an average attendance rate of 98.08%.

In order to enhance financial information disclosure, managerial performance and stability, and the Company's sustainable development, the Audit Committee, Remuneration Committee, and CSR Committee have been placed under the Board of Directors, PCSC's highest guiding body. They play top-down management and supervisory roles to ensure the sound operations of the Company.

Note : The Annual Report can be downloaded from the Market Observation Post System or from the investor relations website (<http://www.7-11.com.tw/company/ir/>)

▶ 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 oversee and control the fair presentation of the Company's financial report, the hiring (and dismissal), independence, and performance of certificated public accountants of the Company, effective implementation of the internal control system of the Company, compliance with relevant laws and regulations by the Company, and management of the existing or potential risks of the Company.

The Committee is composed of three independent directors with Shu, Pei-Gi serving as convener. It meets at least once per quarter. In 2019, the Board of Auditors held 4 meetings with an attendance rate of 83.33%.

▶ 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. In 2019, the Committee held 3 meetings with an attendance rate of 88.89%.

▶ CSR Committee

In order to promote and implement CSR and corporate sustainability management, the Board passed a resolution to establish a CSR Committee directly responsible to the Board in 2018, incorporating an independent director mechanism. It is composed of six members, three of them are independent directors. The Committee is responsible for drawing up the Company's CSR systems, overseeing the direction of CSR policies and implementation plans, assessing the effectiveness of CSR programs, and approving CSR reports.

Although the functional committee was not set up until 2018, 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 2019, the Committee held three meetings with an attendance rate of 94.44%.



Ethical Corporate Management

Everything in PCSC, from top to bottom and including its value chain, is rigorously regulated by ethical operations, PCSC's highest operational principle. PCSC established its "Ethical Corporate Management Practice Team" under the Board of Directors. It drafted the "Corporate Governance Best Practice Principles," "Ethical Corporate Management Best Practice Principles," and "Ethical Corporate Management Operating Procedures and Code of Conduct" to serve as a code of conduct to regulate ethical operations within the Company. In May of each year, we disclose the status of the Company's promotion of ethical operations on our official website.

We also utilize internal training as well as signing relevant agreements with suppliers to realize ethical operations. Since 2015, the Company has 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 have also checked with stores to ensure that store managers have completed the training. As of December 31, 2019, 100% of back office personnel and store managers had completed the course. In terms of collaborations with external suppliers, a clause requiring "honesty and no acceptance of bribes" has been added to PCSC supplier agreements since 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 2019, PCSC had 965 new supplier contracts and 802 new standard purchase contracts. All included sign-offs on "Agreement of the Ethical Corporate Management and the Corporate Social Responsibility."

In the event of violations of ethical operations, 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. If it is determined that stakeholders from outside of the Company have known anything that violated ethical operations, stakeholders can report violations through PCSC's Internal Audit Office and Integrated Services Center's exclusive reporting hotlines, or 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. In 2019, no incidents involving corruption or bribery or breach of fair trade occurred. From 2015 to 2019, there were no incidents of political contributions or other donations given to candidates, election organizations, or activities. In 2017, the Fair Trade Commission claimed that in 2017 that our franchise agreement did not offer complete disclosure of information and set a fine of NT\$5 million. The case was decided in PCSC's favor in 2019.

Ethical Corporate Management Practice Team





Risk Management

PCSC's ability to respond to and deal with risks has been an important key to its continued growth and stable operations. Our risk management covers the entire group and all subsidiaries. Every person, from the Board of Directors and management at all levels to staffs, participates and implements risk management. By clearly classifying each risk, setting management guidelines, and assigning a unit to deal with the risk, PCSC proactively identify, analyze, assess, monitor, respond, and report potential risks in our business operations. We also keep improving our countermeasures handling these risks. The responsible units and the implementation of risk management for PCSC's primary risks are as follow:

Aspect	Risk type	Implementation of risk management	Responsible unit
Economic	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
Economic	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
Corporate Governance	Market risks	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.	Various business units/ Regulation Identification committee/crisis management teams



Aspect	Risk type	Implementation of risk management	Responsible unit
Social	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. 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. 	Operations group / Marketing groups
Economic	Risks related to Maintaining franchise system order	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.	Operations group / Marketing groups
Social	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.</p> <p>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
Environment	Climate risks	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 "President Chain Store Corporation - Climate Change Mitigation and Adaption Measures"	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.



► 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
<p>Demographic structure changes</p> <p>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.</p>	<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. 	<p>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.</p>
<p>Large-scale epidemics</p> <p>In recent years, the threat of communicable diseases (e.g., influenza, avian flu, dengue fever, SARS, and coronavirus) has increased and the diseases have increasingly crossed international borders are increasingly affecting people's health and livelihoods. Each time an epidemic breaks out, competent authorities demand increasingly strict public sanitation and health safety laws and regulations and brought about changes in consumer psychology and behavior. PCSC stands on the front lines providing the public convenient products and services, bringing together people and products from all over. Faced with the uncertainty because of communicable diseases, in addition to ensuring the continuance of operations, it is important to ensure that customers are provided high quality products and services that are healthy and safe.</p>	<ul style="list-style-type: none"> ■ To prevent or control epidemics, requirements by competent authorities to enhance such areas as operational environment, food safety, employee health, and health management have increased operational costs and compliance risks. ■ Customers deal with store personnel face to face and select for themselves products on shelves, make drinks on site, and eat at tables provided in our stores. These have all become potential routes of transmission. Integrating preventative measures increases operational costs, but an outbreak in a communicable disease could also adversely impact our business reputation. ■ Epidemic prevention measures, such as home quarantine, could affect employee attendance, travel, the feasibility of our contractors working on site, or impact supply stability and the efficiency of material flow all of which are continuous tests for convenience store operations. ■ Due to worries of epidemics, the public could go out less or change demand for products and services, which will influence convenience store's customer behavior and future plans for product development, logistics, and supply. 	<p>PCSC has taken the initiative to prioritize and strictly adhere to communicable disease prevention laws and regulations. We set up an epidemic crisis taskforce and notification system. The taskforce holds regular meetings and reports to the Board. In addition to enhancing cleanliness at all of our stores and calling on all departments and contractors to adopt epidemic prevention measures, we have integrated work-from-home and online conferencing systems for our support services to increase work flexibility. Measures used at our stores include promoting disease prevention, efficient manpower allocation, and making adjustments to product inventory. The primary objectives for our products are to ensure food safety and product supply stability. We promote foods on self-service naked food areas packaged and refrigerated and to meet customer needs, we are making adjustments to our product mix and marketing activities to mitigate potential risks brought on by communicable disease.</p>



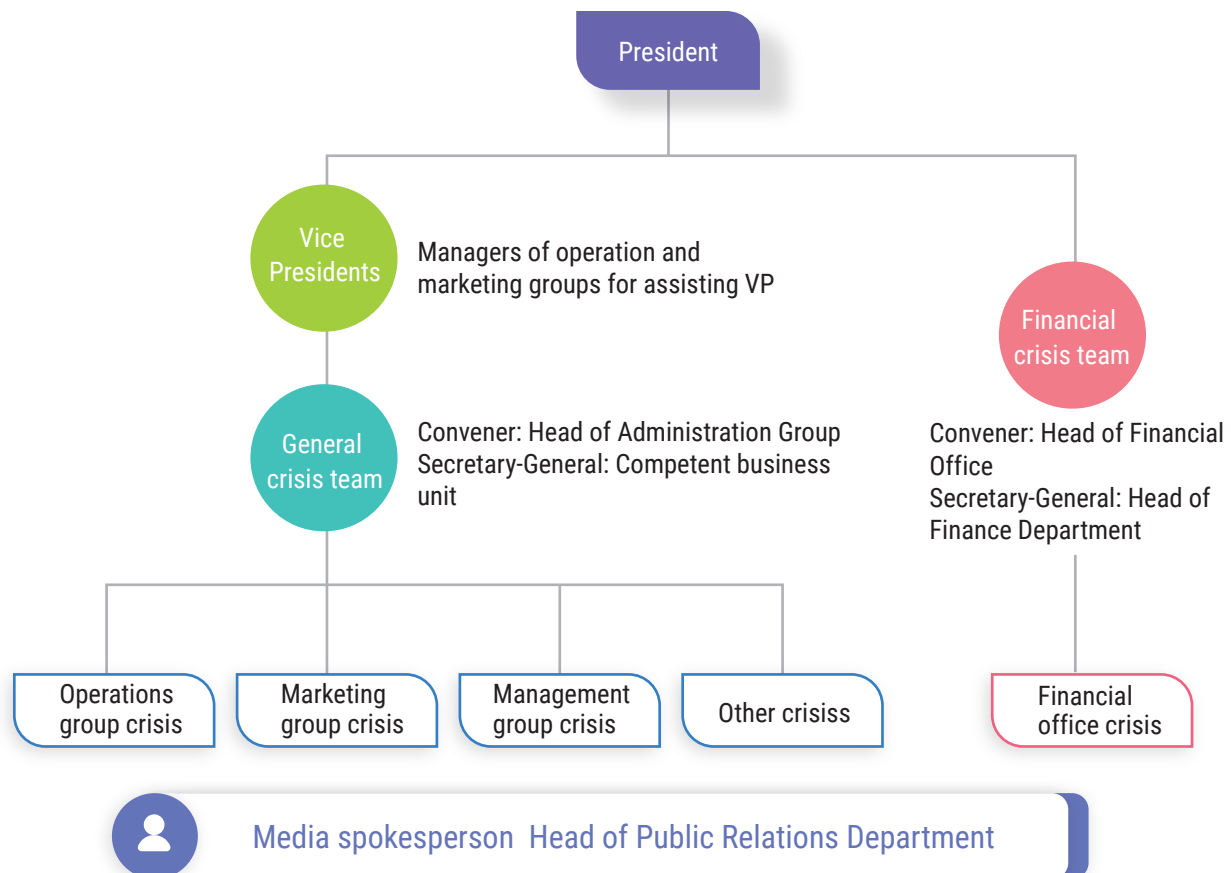
► Crisis management

In addition to control, PCSC has also set up a sound risk management responsibility team and SOP for dealing with crises to minimize losses caused by crises.

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. In light of the special characteristics of the convenience store industry, PCSC has set in place internal SOPs for dealing with crises stemming from highly sensitive issues (e.g., racial, human rights, gender orientation, and cross-strait issues, strikes, and false information on the internet), including reporting procedures, time limits for reporting, handling procedures, and the relevant competent authority. The use of these rigorous mechanisms has served to strengthen PCSC operations. This Crisis Management Team also reviews legal risks using objective data to facilitate improvement and follow up.

In 2019, the Company convened crisis management meetings to deal with the improper use of store equipment by store personnel. 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 a Regulation Identification Committee. Each month, the committee collects relevant laws, regulations, order, bills, and interpretations that could affect the operations of various units and provides relevant laws, regulations, order, bills, and interpretations to regulation identification windows to carry out regulation identification. In the event that anything is identified as being relevant, the identification window is required to perform a risk assessment to facilitate follow up and improvement. Inter-departmental Regulation Identification Committee meetings are convened quarterly to discuss information on laws and regulations that are relevant to all units.



To enhance information security management, in the second quarter of 2020, PCSC begin including in the Exercise Rights of the Party Group and Information Security System Workgroup Report information on any customer privacy violations during that quarter.

Violations during 2019

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 2019 for violating any laws or regulations mentioned above. In 2019, PCSC had no major violations of environmental laws or regulations, product or service information labeling regulations, or marketing communications regulations. Some stores violated product or service's health and safety regulations (e.g., the Tobacco Hazards Prevention Act and the Pharmaceutical Affairs Act), the Occupational Safety and Health Act, and the Labor Standards Act and were fined NT\$360,000 by competent authorities. PCSC has called on the stores to make improvements and increased dissemination of relevant regulations. Please refer to page 58 of the 2019 PCSC Annual Report for more details.