



# PCSC's Outstanding Products and Services

## 2017 KPI

- More than NT\$**40** million invested on product inspections

## 2016 KPI

- More than NT\$**39** million invested on product inspections

## Percentage of target met

Target exceeded  
(NT\$**42.3**million)

## SDGs



## Sustainable Products and Services

PCSC aims to serve our customers as a good neighbor. Our over 5100 stores across Taiwan provide consumers with a quick, convenient channel to access foods, beverages, and household items. In addition to selling products from well known domestic and international brands, in 2007 PCSC established our privately-owned products to offer high quality, low priced goods for our customers. Initially, we focused on low prices as an entry point into the market. This strategy was a success, especially because our introduction coincided with the consumer crunch following the financial crisis. Faith grew among the public in convenience store in-house brands and instead of looking to supermarkets, customers began purchasing household items and small packaged food items from convenience stores. By 2015, consumers began to seek higher value from their purchases, not necessarily the lowest prices. This shift in the market from price to value is also reflected in sales numbers, which gave PCSC confidence to accelerate the transformation of our privately-owned brands.

Today, PCSC's iseLect healthy foods and beverages and UNIDESIGN, focused on high quality lifestyle items, have already become trusted, high quality brands in the minds of consumers.



After establishing privately-owned brands, PCSC has taken on the role and risks of a manufacturer in addition to those of a sales channel. Safeguarding the health and safety of consumers is an even greater responsibility.

The UN Sustainable Development Goals (SDGs) to eradicate hunger contains several detailed objectives including (2.1) guaranteeing that people in vulnerable situations have access to sufficient food and (2.c) ensuring the proper functioning of food commodity markets to help limit food price volatility. PCSC has 5,100 stores throughout Taiwan. Through transparent, reasonable prices and convenient channels, we provide consumers the goods and foods they require on a daily basis, thereby meeting the expectations of this goal.

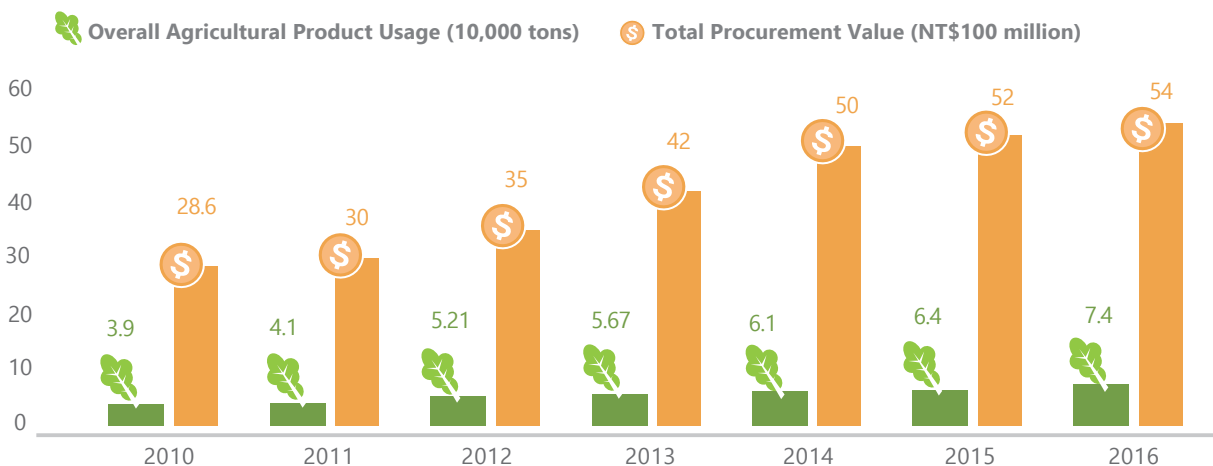
SDGs	Detailed Goals	
	2.1	End hunger by 2030. Ensure that all people, especially the poor and people in disadvantaged situations (including infants), have access to safe, nutritious and sufficient food.
	2.c	Adopt measures to ensure the proper functioning of food commodity markets and their derivatives, and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility.

## 2.1 Supplier Cooperation and Management

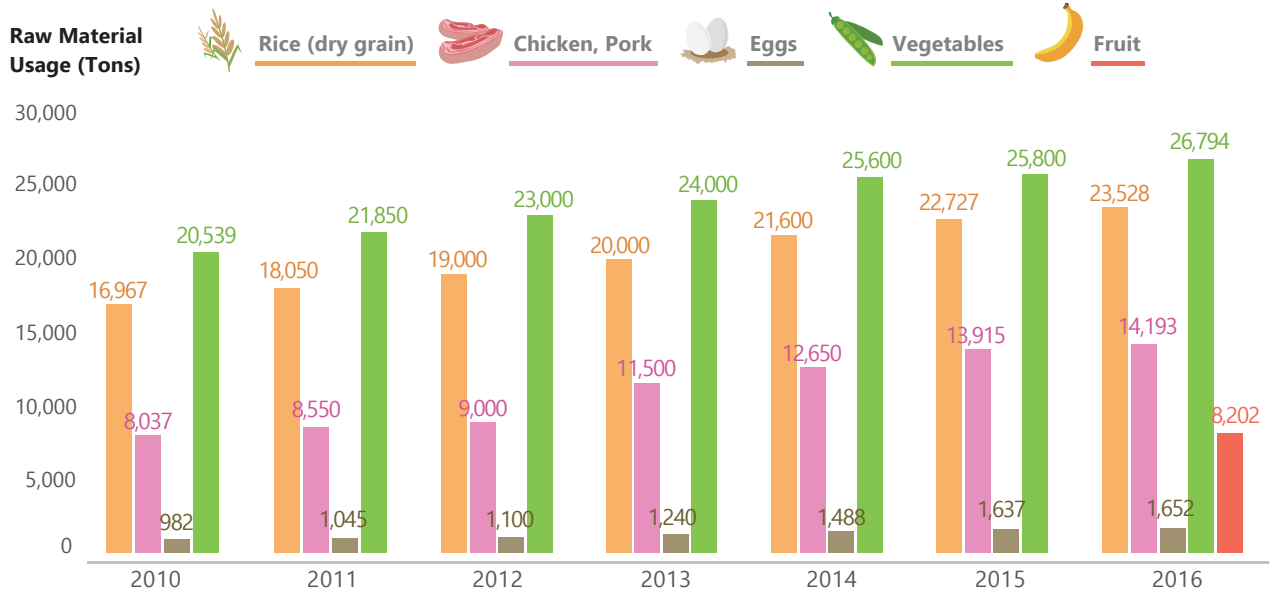
PCSC's suppliers can be split into three different categories, producers of non-privately owned products, privately-owned products (include private brand and private label products), and other. Proper supplier cooperation and management ensures the maintenance of consumer health and safety.

### 2.1.1 Supplier Cooperation

PCSC's selection of ready-to-eat foods is healthy and fresh. We strictly select materials from local, in season agricultural products. Engaging directly with contract farmers, in 2016 PCSC purchased 74,000 tons of ingredients with a value of NT\$5.4 billion.

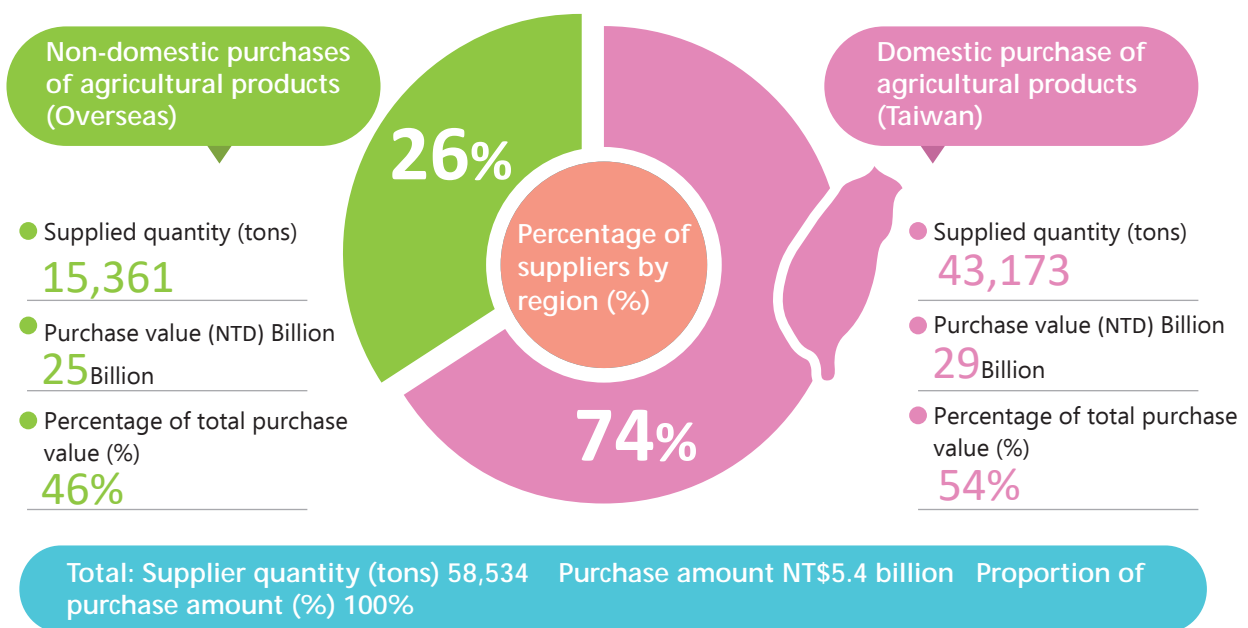


### Raw Material Usage by Year (Tons)



In order to encourage agricultural development in Taiwan and reduce our overall environmental footprint, PCSC continues to increase local procurement. In 2016, Taiwanese suppliers represented 74% of total procurement and NT\$2.9 billion (54% of total procurement dollars).

### Proportion of locally purchased agricultural products in 2016





## 2.1.2 Supplier Management

PCSC does not operate our own factories, instead our private brands are produced by contract manufacturers. We have established the "Privately-Owned Product Contract Manufacturer On-Site Evaluation Management Guidelines" to review such facilities in addition to the "Regulations Governing Raw Material Suppliers and Raw Material Management" for direct raw material suppliers and "Regulations Governing the Management of Egg Raw Materials for Commercial Use" regarding regular evaluations of egg suppliers. The evaluations of private brand suppliers include new supplier evaluation and the routine evaluation of existing suppliers. The areas covered in evaluations of our own-branded food product suppliers (including contract manufacturers, raw material suppliers, and egg suppliers) are listed in the "Supplier Evaluation Metrics and Weighting" tables below. Through comprehensive evaluations, we ensure product safety and proper organizational management. Suppliers are given an evaluation rating of A, B, C, or D, where a passing score for contract food manufacturers is B or higher and C or higher is considered passing for direct raw material and egg suppliers. The scores are also discussed further below.

### Supplier Evaluation Metrics and Weighting

#### 1. Contract Manufacturers

No.	Area of Evaluation	% of Total	No.	Area of Evaluation	% of Total
1	Management and regulations	7.1%	7	Facilities and equipment	18.8%
2	Hazard analysis & critical control points (HACCP) food safety system	4.5%	8	Vector control	5.4%
3	Process and product control	19.6%	9	Food safety crisis management	7.1%
4	Non-conforming product control and tracking	3.6%	10	Testing and measurements	6.3%
5	Environmental sanitation	8.9%	11	Storage and transportation	9.8%
6	Employee health and sanitation	8.9%	12	Social responsibility	Prerequisite, not scored

#### 2. Direct Raw Material Suppliers

##### (1) Factories

No.	Area of Evaluation	% of Total
1	Factory facilities and environmental sanitation management	19.0%
2	Occupational health management	8.0%
3	Process control	15.0%
4	Quality control	27.0%
5	Raw material control	14.0%
6	Storage and transportation control	7.0%
7	Customer complaints and continuous improvement	5.0%
8	Establishment of environmental protection standards	5.0%
9	Supply capacity assessment	Not scored

##### (2) Merchants

No.	Area of Evaluation	% of Total
1	Environmental sanitation management	18.0%
2	Occupational health management	5.0%
3	Process control	6.0%
4	Quality control	29.0%
5	Raw material (product) control	17.0%
6	Product storage and transportation control	12.0%
7	Customer complaints	8.0%
8	Environmental protection	5.0%
9	Quality and supply capacity	Not scored

**(3) Agricultural and Livestock Suppliers**

No.	Area of Evaluation	% of Total
1	Raw material control	30.0%
2	Quality and supply capacity	10.0%
3	Factory cleanliness and sanitation	30.0%
4	Process control	30.0%

**(4) Egg Suppliers**

No.	Area of Evaluation	% of Total
1	Plant environment	2.2%
2	Plant facilities	33.2%
3	Equipment and packaging materials	13.3%
4	Process control	8.9%
5	Quality control	6.6%
6	Sanitation control	6.6%
7	Transportation management	4.4%
8	Results of product sampling	2.2%
9	Raw material and product checks	8.9%
10	Risk management	13.7%



**Supplier Evaluation Results Rating**



Rating	Points Earned
A	90 points or higher
B	80-89 points
C	70-79 points
D	69 points or lower

In addition to participating in supplier evaluations, potential new suppliers must also meet the following requirements

**1.Contract Manufacturers**

- Legal requirements: Holds a valid company registration, factory registration, business registration, or change notice. (Those determined by competent authorities to be exempt from registration must provide additional supporting documents as proof). The type of industry recorded on the registration must include the products outsourced for processing. Overseas contract manufacturers should follow the relevant local legislation of their home countries.
- Priority considerations are given to those with CAS, TQF, HACCP, or ISO22000 quality certifications.
- Possesses a sound management system, proper quality management, internal QC capabilities, production management, and hygiene management.
- Raw materials are traceable to ensure the product satisfies relevant national food safety and health regulations concerning pesticides, veterinary drug residue, and heavy metals and abide by import and other relevant regulations.



PCSC – A Sustainable Enterprise



PCSC's Outstanding Products and Services



PCSC-Support for environmental sustainability



PCSC's Happy Community



PCSC'S friendly work environment

## 2. Direct Raw Material Suppliers

- Legal requirements: Holds a valid company registration, factory registration etc.
- CAS, TQF, HACCP or ISO22000 certifications are preferred.
- When new raw materials are delivered, traceability documents and a risk assessment must be provided.

## 3.Egg Suppliers

- Eggs processed at the washing and picking plant must be sourced from a Certified Agricultural Standards (CAS) approved and contracted farm. The washing and picking plant must also pass CAS evaluation standards and receive qualification (such as a product certificate).
- Egg packaging and labeling must meet national regulations and CAS benchmark verification for egg products, such as product name, and the names, addresses and phone numbers of the producer and distributor.
- Eggs must pass inspection under announced national standards that include testing for salmonella, 48 kinds of veterinary medicine residues, tetracycline antibiotics, antibiotics and their metabolites, and chloramphenicol.

Production process management at contract food manufacturers has a direct impact on product quality and safety. PCSC requires that our private brand contract manufacturers implement international food safety management systems and receive certification from a third party auditor. As of the end of 2016, there were 46 suppliers for PCSC privately-owned food products that operate a total of 85 factories. Of the 58 factories located in Taiwan, 56 have received international food safety management system certification (ISO22000 or FSSC22000). One of the remaining two factories received ISO9001 certification in December 2016 and we terminated cooperation with the other factory in January 2016.

Through the end of 2016, a total of 46 suppliers (contract manufacturers) produce private brand food products for PCSC and 100% have been evaluated (Note 1). A total of 206 evaluations have been held for these 46 suppliers, with 203 earning passing scores for a pass rate of 98.5%. Apart from issuing fines to non-conforming suppliers in accordance with the merchandise quality contract, these suppliers were also asked to undertake corrective measures and complete a re-evaluation; all have now achieved a passing score.

Note 1:Business and contract production was ended with Tainan Egg (one farm) and one contract factory of Triko Foods prior to the evaluation frequency deadline specified for the rating achieved in their pre-supplier evaluations. Therefore, as stipulated in the relevant regulations, no further evaluation was required in 2016.



### 2.1.3 Supplier Conference

The "Looking Forward to 2017 Fresh Food Supplier Conference and Banquet" held in 2016 was attended by over 180 people representing a total of 72 upstream fresh food producers and raw material suppliers that have long supported product development including Uni-President Superior Commissary, Lian Hwa Foods, Kaohsiung Airport Catering Services, Shin Hu Cooperation Farm, and Kisaraki Foods. Currently, PCSC works with 25 fresh food producers and 162 raw material suppliers.

To encourage quality vendors and boost management effectiveness, we organize the "Outstanding Supplier" and "Gold Medal Fresh Food Factory" competitions every year in appreciation of our exceptional partners. The "Outstanding Supplier" competition is judged on supplier evaluations, factory sanitation audits, quality abnormalities, raw material sampling and testing, and major incidents. The "Gold Medal Fresh Food Factory" competition evaluates five areas that include weight, microorganisms, customer complaint cases, evaluation audit, supply capacity and is divided into the "Best Product R&D" and "Best Factory Management" awards.

## 2.2 Product Safety Management

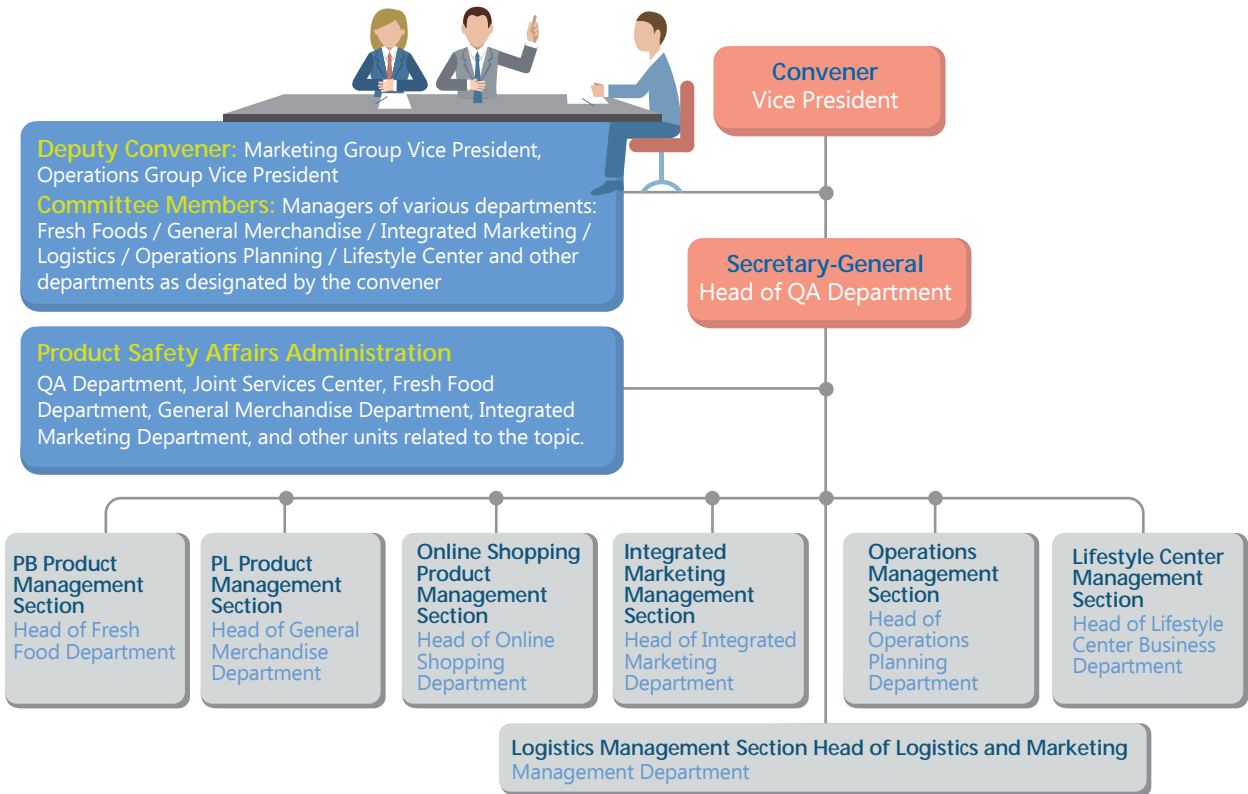
Food safety is of the utmost importance to PCSC and in order to achieve comprehensive food safety controls, we have established the Merchandise Safety Committee, set up internal supervision mechanisms for product safety, and upgraded our Quality Control Lab's testing capabilities. In 2016, we invested a total of NT\$113,000,000 in order to improve our food safety management.

### 2.2.1 Merchandise Safety Committee

PCSC's Vice President serves as convener of the Merchandise Safety Committee, while the Marketing Group Vice President and Operations Group Vice President serve as deputy conveners. The secretary-general of the Committee is the head of the QA Department. The Product Safety Affairs Administration, responsible for collecting and collating product safety related issues, oversees seven management sections supervised by various department heads.

The Merchandise Safety Committee established systematic control mechanisms for PCSC privately owned brands, which govern 100% of private branded items. The Merchandise Safety Committee was convened three times in 2016 and discussions included government regulations, non-conformities found in contract factory and supplier evaluations, product safety information, and the food safety testing program and progress of its implementation.

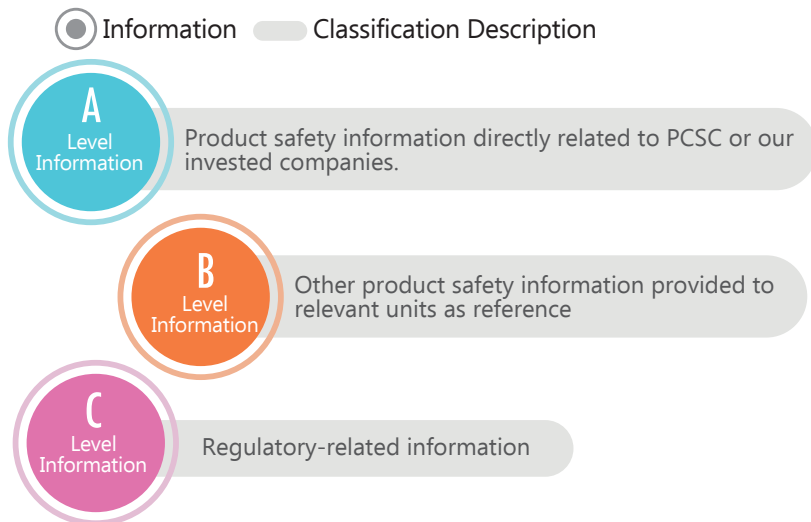




Note: This is the updated organizational structure as adjusted in 2016

### 2.2.2 Product Safety Information

In order to manage product risks and ensure the quality of goods on our shelves, PCSC established the "Product Safety Information Collection, Assessment, and Tracking Procedure" to assess safety related information for our products and ensure proper follow up. The system affects 100% of PCSC privately-owned products. In 2016, a total of 735 messages were collected, which included six Level A messages, 524 Level B messages, and 205 Level C messages.



### 2.2.3 Traceability Management

PCSC is not required under Article 9 of the Act Governing Food Safety and Sanitation to set up a traceability system. Nevertheless, PCSC partnered with Taiwan Delica Foods to set up a private brand product raw material and quality assurance management database (Raw material purchasing database, MAS system). Approved raw materials and suppliers are entered into the MAS database for traceability management. This ensures that the raw materials and suppliers for private brand products and foods are easily traceable.



## 2.2.4 Quality Control Lab

Established in 2012, the PCSC Quality Control Lab performs rigorous testing on products and raw materials for veterinary drug residue, pesticide residue, food additives, biological toxins, heavy metals, mold toxins, microorganisms, and fake ingredients before they are placed on store shelves. The QC Lab first secured ISO/IEC 17025:2005 certification from the Taiwan Accreditation Foundation (TAF) in 2013. The certification was renewed in August 2016 and will be valid through 2019. As of the end of 2016, the QC Lab has established 552 tests in accordance with CNS and relevant bulletins/guidelines issued by the Taiwan Food and Drug Administration and other agencies. There are additional 101 voluntary test items not based on the official methods mentioned above.



### Taiwan Accreditation Foundation (TAF) Certifications

Microorganism tests in accordance with ISO/IEC 17025:2005 3 certifications

### Taiwan Food and Drug Administration (TFDA) Certifications

Nitrofurantol metabolites 4 certifications

Chloramphenicol Antibiotics 4 certifications

Analysis for various chemical residues 48 certifications

Microorganisms 4 certifications

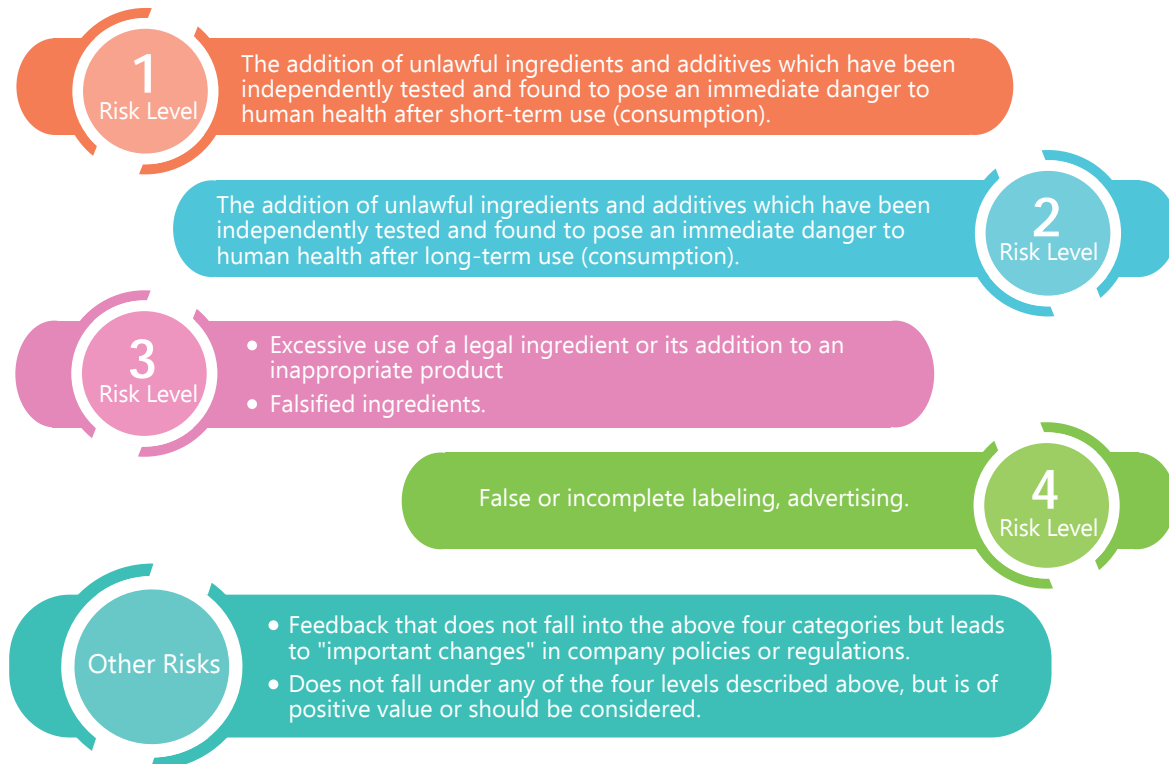
In 2016, a total of 1,009 products and raw materials were tested with 999 earning a pass, for a pass rate of 99.0%. Suppliers of non-conforming raw materials or products are required to improve within a specified period of time. Non-conforming products are preventatively taken off store shelves and are only sold if later proven to be safe. Quality Control Lab expenditures totaled NT\$26,679,000, which includes testing costs of NT\$5,955,000 (Note 1), representing 0.02% of total operating revenue. In 2016, NT\$42,300,000 was invested in product testing outpacing the 2016 KPI of NT\$39,000,000.

Note 1: Quality Control Lab related expenditures include: testing, salaries, rent, depreciation, equipment maintenance, and miscellaneous purchases.



## 2.2.5 Internal product Safety monitoring mechanisms

The "Privately Owned Products Safety Assurance Guidelines" were implemented with the goal of establishing an internal product monitoring system. Personnel from the back office, company-owned stores, and franchisees are encouraged to report their concerns regarding the advertising, labeling, or ingredients of any PCSC private brand products. All reports are passed to the Merchandise Safety Committee. If confirmed, the whistleblower is awarded varying sums for finding the problem depending on the product safety risk level of the issue discovered. In 2016, there were two internal monitoring cases which were awarded NT\$1,000.



## 2.3 Product and Service Quality Controls

In addition to the safety of a product itself, the process of transportation, storage, and display of merchandise is just as important to maintaining high quality. To achieve comprehensive controls from the source to the customer, PCSC works together with logistics companies to implement primary logistics and store product quality and service checks ensuring customers have confidence in the products they purchase and use.

### 2.3.1 Primary Logistics

Temperature, personnel, and hygiene during the logistics process have an important effect on product quality. Therefore, PCSC adopted primary logistics to consolidate transportation and extend the quality management process from store delivery to the supplier; such a comprehensive process quality management approach helps to ensure food safety. The product categories for which primary logistics was introduced in 2014 include fast food, rice, and bread, have now achieved 100% implementation. Fruit, hot dogs/salads and cooked foods have been partially adopted. In 2015, fresh produce such as bananas and vegetables reached 59% and 57% implementation, respectively, with bananas reaching 100% implementation in June of 2016 and fresh produce (excluding ears of corn and bamboo shoots) has now also reached 100%.

## 2.3.2 Store Audits

In order to ensure PCSC stores provide consumers with an outstanding shopping experience, each year we hold service audits at company-owned stores and franchises. Four main areas are evaluated: basic services, specialized services, environment, and appropriate response measures. Results fall into three grades, from A to C. In 2016, audits were held at 3,433 stores and 1,547 stores received an A rating. Those locations earning a C rating receive coaching from the operations team and held store-wide meetings to draft an improvement plan and track results.



Through the assistance of a management consulting firm, we also performed checks on product expiration date management and quality assurance operations. In 2016, audited stores represented 99.3% of all total stores (Note 1). In 2016, checks were performed 21,925 times and 21,335 earned a passing score, for a pass rate of 97.3%.

In addition to the aforementioned store checks, in order to enhance overall staff quality assurance capabilities, PCSC continued to hold quality assurance training for new and existing store staff. In 2016, 10,830 people participated in training. Beginning in July 2016, PCSC also commissioned a management consulting firm to audit store quality assurance training certifications. A total of 99.7% of stores in Taiwan received such audits in 2016.

Note 1: Because a small number of stores closed in early 2016 or opened in late 2016, they were not audited in 2016.

## 2.4 Customer Rights and Interests

PCSC is committed to upholding our customers' rights and interests, from ensuring complete product information on packaging to offering communication channels for customers to offer their suggestions or comments. In cases where we receive personal information from our customers, this data receives special protections.

### 2.4.1 Product Labeling

Clear product labeling is our first promise to PCSC customers. We required all of our suppliers to sign a declaration of guarantee that their products' ingredients, production processes, labeling, and advertising all comply with the law. PCSC also implements "Privately Owned Product Labeling and Advertising Content Review" in order to control the quality of private brand products.



## 2.4.2 Complaint Mechanism

PCSC established the Joint Services Center to serve as a communication channel for employees, franchisees, and customers to make inquiries or lodge complaints regarding products and services through the Center's dedicated hotline and email inbox. After customers contact us to leave a complaint or suggestion, a case is opened to ensure proper resolution of the situation. Only after the customer receives a satisfactory reply is the case considered closed. In 2016, the online resolution rate was 80.05%.

## 2.4.3 Personal Information Protection

In reaction to changing consumer habits and needs, PCSC provides a variety of services that include online shopping, ibon ticket sales and pickup, and parcel pickup and dispatch. As our services have expanded, we have an increased contact with our customers' personal data. To bolster protections on such data, we established the "Personal Information Protection Task Force" to regularly conduct personal information inventories and risk analysis while also providing training to key staff in all departments of the Company. In 2016, there were no privacy-related complaints or violations at PCSC and 100% of relevant employees completed personal information protection online training.

PCSC began external certifications in 2012 and in 2014 received Taiwan Personal Information Protection and Administration System certification. In 2016, we applied for recertification and passed the audit to successfully retain our certification.



## 2.5 Legal Compliance

The production and sale of PCSC private brand products, including raw material sources, components, product labeling, and product marketing are all governed as required by relevant laws. For non-private brand products, we work with suppliers to ensure regulatory compliance through communication, testing, and our auditing mechanism. In 2016, none of the products sold by PCSC violated regulations regarding customer health and safety, product labeling, or marketing communications and we did not sell any prohibited or controversial products. Food products sold in stores subject to the Act Governing Food Safety and Sanitation and its sub-laws, including Regulations on Good Hygiene Practice for Food and Ministry of Health and Welfare Food Hygiene Standards. Over 2016, PCSC received no fines for violations of these regulations.