

# 3

## PCSC Overview



### Company Background

Uni-President Enterprise Corp. established PCSC to introduce 7-ELEVEN to Taiwan in 1978, and opened the first convenience store with open and bright store display two years later. After the challenges in the early years and the constant trial and improvement, we have gradually evolved from the conventional grocery stores into a dense network that reaches every corner of Taiwan. After all these years, we have blended into local communities by providing daily convenience and create quality lifestyle experience for the consumers. We constantly pursue innovation, reposition products, introduce advanced services and create hot topics to enable the consumers to enjoy a brand new CVS experience. We stand at the frontline of market demand and fulfill every need of the consumers. The 24/7 operation and a comfortable dining space have made 7-ELEVEN, in the minds of consumers, a convenient good neighbor and a safe haven in the dark of the night. We consider the smile of satisfaction on every customer's face our ultimate achievement.

For more than 30 years, PCSC has set countless No.1 records in Taiwan, but there are still a lot of rooms for improvement. The corporate culture of "sincerity, innovation and sharing" motivates us to move forward and work hard towards the goal and vision of becoming the No.1 in Taiwan and No.1 in the

world. We leverage our extensive experience in forming a powerful supporting network with the affiliated companies in the group, expanding our range of business to encompass restaurants, drug stores, general merchandise stores, hypermarkets, online shopping, logistics and information system. PCSC advances towards a globalized, diversified and multifunctional business model by establishing a solid and highly efficient collaboration platform.

In the future, PCSC will adhere to its business philosophy of integrity, utilize the concept of TK (product management) to improve on each of the seven business elements of people, store, merchandise, system, logistic, management and culture, and create sustainable growth via initiating structural reforms. We will join with the virtual distribution channels of 7net online shopping service and ibon kiosk to create synergy and introduce more differentiated products and services to provide consumers with more conveniences via a comprehensive service model.

### 3.1 Our Influence

#### Organization Size

##### Status of PCSC operations ( end of 2012)

- Founded :1978
- Chairman: Kao Chin-Yen
- President : Ray Chen
- Capital:NT\$10.396 billion
- Revenue:NT\$134.57 billion
- Net Profit After Tax: NT\$6.789 billion
- No. of Employees: +8,000

##### Total number of 7-ELEVEN Stores

4,852

##### Market Share (%)

49.02



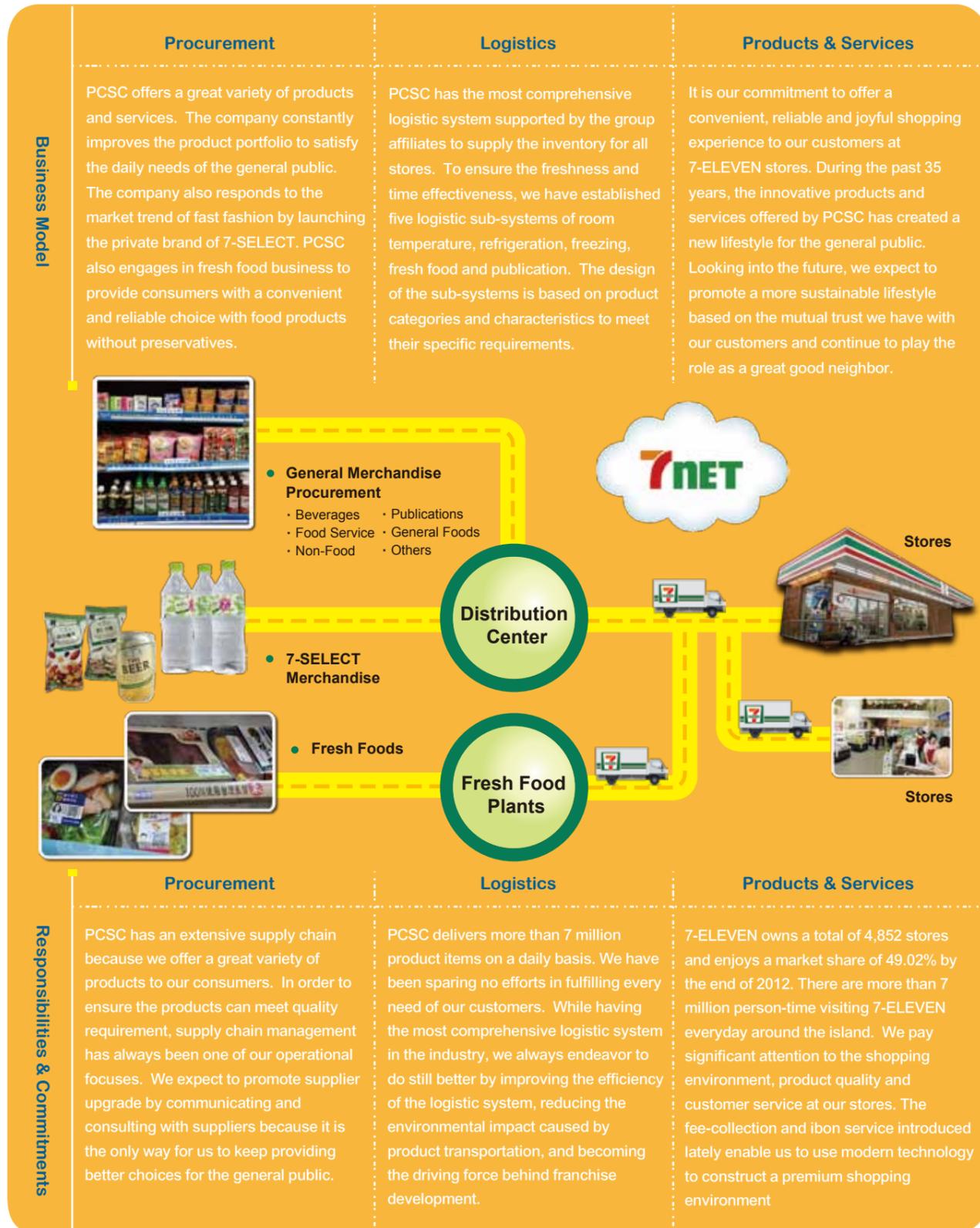
#### Corporate Governance

Improving corporate governance and business integrity has always been regarded as one of PCSC' s long-term goals. The following mechanisms have been set up as monitoring and control methods for the establishment of a solid governance system, strengthening of the monitoring function, and reinforcement of the management system:

01. Auditing committee members can gain an understanding of the company' s operating and audit conditions through the quarterly board meeting and regular audit reports submitted by auditing units, and are able to communicate with employees, investors and accounting personnel through various channels (telephone, mail, fax, conferences etc.)
02. PSCS carries out a regular internal evaluation with regard to the external auditors' independence to make sure they do not serve as the Company' s directors, supervisors or shareholders, nor do they draw a salary from the company. The external auditors shall not be the stakeholder or the company to ensure auditor independence.
03. The Company has an internal control system that is implemented jointly the board and several departments, and internal auditors check its compliance and report to the Board of Directors on a regular basis. To assure the continuing effectiveness of the system's design and implementation, review and revision are carried out annually in order to maintain good corporate governance and risk control system.
04. The chief auditor serves as the company' s Chief Ethics Officer to launch an "ethical management" campaign by encouraging all employees to sign the self-discipline pact to promote the best practices in ethical behavior. In addition, ethical management cases are publicized to all employees on a quarterly basis with the aim of internalizing ethics in employees and establishing a good corporate culture.
05. To ensure ethical transactions and protect the rights and benefits of both parties, PCSC especially includes an anti-corruption affidavit in all commercial agreements. Shall the company' s employee or supplier makes any improper request of kickbacks, the other party shall immediately inform the PCSC' s auditing office in written or oral form. The legal department of PCSC is planning to add a new clause of business integrity and bribery prohibition in the formal agreement template by 2013.

7-ELEVEN owns a total of 4,852 stores and enjoys a market share of 49.02% by the end of 2012. We hold to the principle of bringing 7-ELEVEN service to wherever it is needed, overcoming all kinds of logistical problems to penetrate into remote areas and provide a simultaneous convenient service to Taiwan and outlying islands.

### Our Business model



### Awards

For all these years, PCSC has always been working hard to develop innovative products and services while maintaining a positive, energetic and trustworthy brand image. We have been recognized as one of CommonWealth Magazine's "Most Admired Companies" and is a frequent winner in "best company service" ratings. Meanwhile, the company has also won CSR-related awards from both public and private organizations such as CommonWealth Magazine, Global Views Magazine, and the Executive Yuan. Major awards received in 2011, 2012 and the first five months of 2013 are listed as follows:

2011	2012	2013
<ul style="list-style-type: none"> <li>★ Most Admired Company, CommonWealth Magazine, 2011</li> <li>★ CSR Award, Global Views Magazine, 2011</li> <li>★ Taiwan Environmental Hero Award, Global Views Magazine, 2011</li> <li>★ Best Digital Service Company Award, Business Next magazine, 2011</li> <li>★ Emotive Brand Award, Yahoo! Kimo, 2011</li> <li>★ Enterprise Green Procurement Award, Taipei City Government, 2011</li> </ul>	<ul style="list-style-type: none"> <li>★ Most Admired Company, CommonWealth Magazine, 2012</li> <li>★ CSR Award in the categories of Community Care, Charity Promotion and General Performance, Global Views Magazine, 2012</li> <li>★ Best Digital Service Company Award, Business Next Magazine, 2012</li> <li>★ Enterprise Green Procurement Award, Taipei City Government, 2012</li> <li>★ Taipei City Energy Conservation Award, Commercial Group B, 2012</li> </ul>	<ul style="list-style-type: none"> <li>★ Green Brand Award in Retail Distribution Channel Category, Business Next, 2013</li> <li>★ Enterprise Green Procurement Award, Taipei City Government, 2013</li> <li>★ One of Top 100 of Favorite Corporation of new generation, Cheers, 2013</li> </ul>

In order to improve corporate governance and protect the rights and benefits of investors and employees, PCSC has established a Compensation Committee in 2011 and appointed independent directors and set up an Audit Committee in 2012. PCSC also took a giant leap in corporate governance by enacting "PCSC Corporate Social Responsibility Best Practice Guideline."

**Establish the Compensation Committee :**

The company established the Compensation Committee on August 19th, 2011. It is aimed at helping the board of directors to implement and evaluate the company's policies on compensation and employee benefit, as well as the compensation for directors and professional managers. The Compensation Committee has held four meetings at the time of publishing.

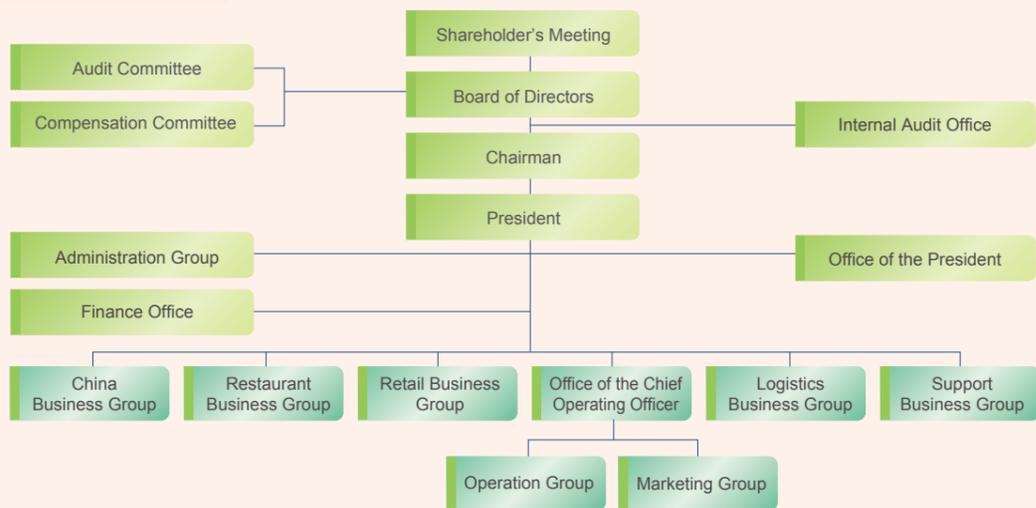
**Enact "PCSC Corporate Social Responsibility Best Practice Guideline"**

In order to help the board of directors to draft CSR policies, and to include corporate social responsibility as one of the focuses of our daily operation, the CSR Committee is positioned at the corporate governance level to build a top-down consensus of promoting CSR. The company enacted "PCSC Corporate Social Responsibility Best Practice Guideline" in 2012 to help each department to fulfill corporate social responsibility.

**Introduce Independent Director and Establish the Audit Committee :**

In response to the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", PCSC hosted the re-election of board directors and introduced independent directors in June 2012. The company also established an Audit Committee to help the board of directors to fulfill the responsibility of supervision and the duties assigned by the Company Act, Securities and Exchange Act, and other applicable laws and regulations. The three independent directors appointed are Mr. Wang Wen-Yu, Mr. Chen Min-Dao and Mr. Hsu Pei-Ji, whose term begins on June 21st, 2012 and ends on June 20th, 2015. The Audit Committee has held six meetings at the time of publishing.

Organization Chart



Independent Director

Dr. Wang Wen-Yu

Current Position

Professor, Law School, National Taiwan University

Educational Background

PhD Degree in Law, Stanford University

Professional Background

Former member of Fair Trade Commission of the Executive Yuan, former director of Taiwan Cooperative Bank, former supervisor of Taiwan Futures Exchange, former member of the review committee for public listed companies, etc.

Dr. Chen Min-Dao

Current Position

Professor, Graduate School of Finance, Fu-Jen Catholic University

Educational Background

PhD Degree in Accounting, University of Illinois at Urbana-Champaign

Professional Background

Former executive director of Taiwan Bank, former member of the disciplinary committee of Taiwan Futures Exchange, and former member of the review committee for public listed companies, etc.

Dr. Hsu Pei-Ji

Current Position

Deputy Dean, College of Management, Fu-Jen Catholic University

Educational Background

PhD Degree in Business Administration, National Cheng-Chi University

Professional Background

Former director of the Center for Corporate Governance and Business Ethics, Fu-Jen Catholic University

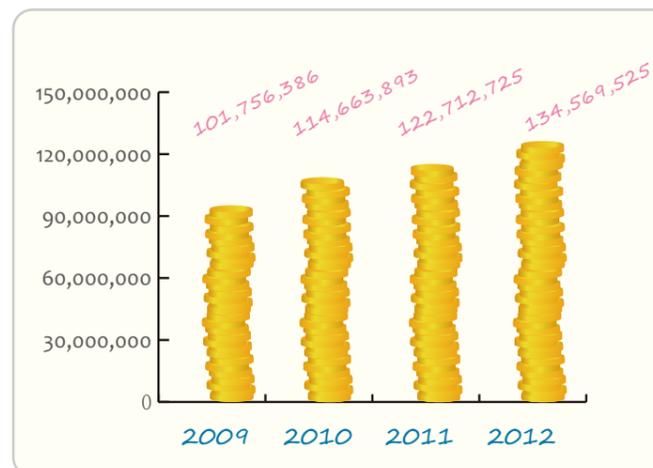
Investor Relations

The global economy has been affected by the European debt crisis during the past two years. Companies in Taiwan have also been facing the challenges brought by the increase of energy and labor cost. Despite the economic slowdown, PCSC's management team continued to improve the profitability by adopting innovative business model, improving store quality, strengthening private brands, explore online business opportunities, and leverage the resources of group affiliates to implement integrated promotional campaigns. The total revenue and net profit after tax in 2012 have both set record high at NT\$208.26 billion and NT\$6.79 billion respectively.

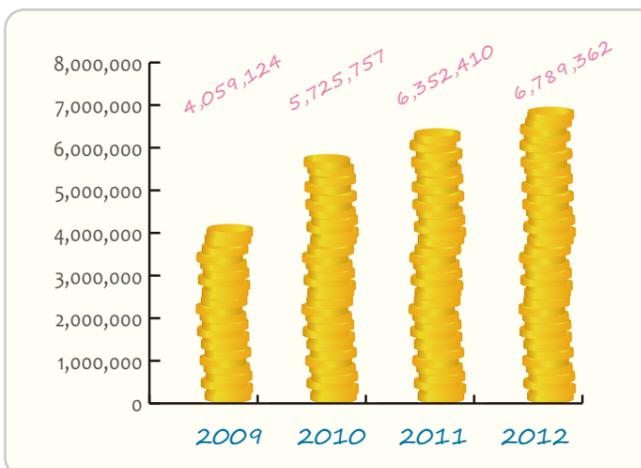
It is our responsibility to the investors to offer them with long-term investment values. In view of the solid profit growth, we implement a steady dividend payout policy and maintain a high return on equity. In the future, PCSC will aim at sustainable growth by strengthening operational performance and financial structure to create long-term investment value and improve shareholder's equity. Information transparency is critical in improving the stakeholders' understanding of the company and helping the capital market to identify our intrinsic value. "Information Disclosure" therefore has always been an important part of our efforts in assuring business integrity and

transparency. In addition to hosting institutional investor's meeting to announce the quarterly financial numbers and operational outlook, we also establish an investor's section on our website to provide financial statement, annual report, and information regarding the institutional investor meeting and dividend payout. In 2012, we were rated A+ in the information disclosure review conducted by Securities and Futures Institute in Taiwan. PCSC also publishes CSR report on a regular basis to disclose information on corporate governance, environmental protection and charity contribution to improve information transparency and demonstrate our respect for the investors.

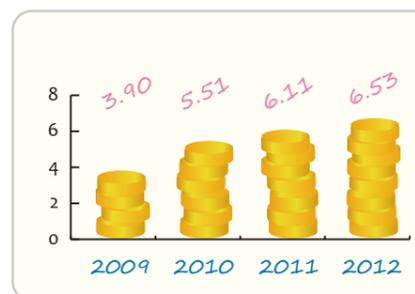
Revenue (NT\$1,000)



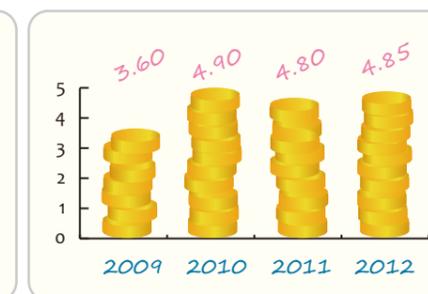
Net Profit (NT\$1,000)



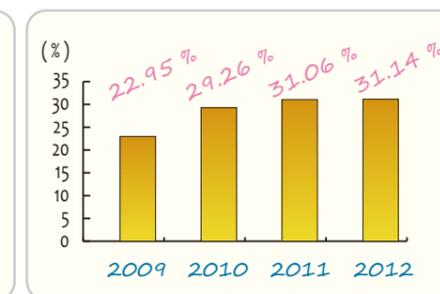
EPS (NT\$)



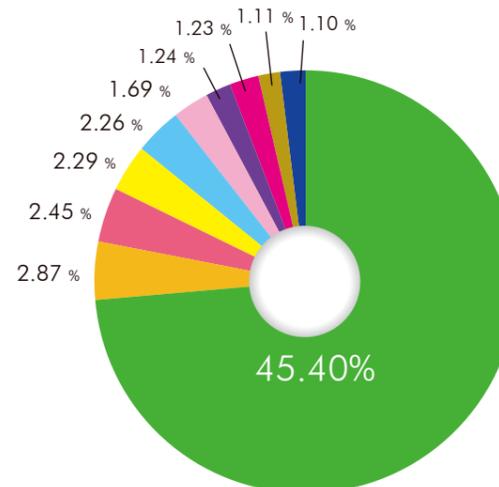
Dividend per share (cash dividend)(NT\$)



ROE (%)

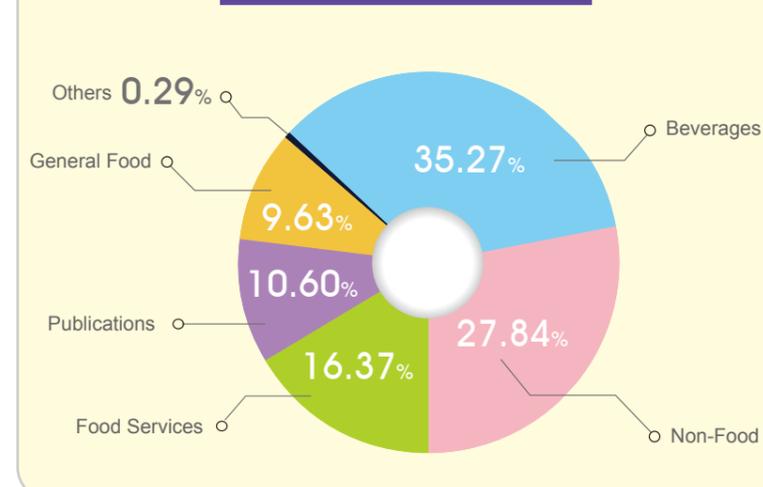


Top Ten Shareholders (2013/04/30)



- 45.40% President Enterprise Co. Ltd.
- 2.87% National Westminster Bank plc as Depository of First State Global Emerging Markets Leaders Fund a sub fund of First State Investments ICVC
- 2.45% National Westminster Bank plc as Depository of First State Asia Pacific Leaders Fund a sub fund of First State Investments ICVC
- 2.29% JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Saudi Arabian Monetary Agency-State Street Global Advisors as external fund manager
- 2.26% MATTHEWS INTERNATIONAL FUNDS
- 1.69% PCSC Employees Benefits Trust account in the custody of China Trust Commercial Bank
- 1.24% JPMorgan Chase Bank N.A. Taipei Branch in custody for Fleming Investment Management Limited
- 1.23% JPMorgan Chase Bank N.A. Taipei Branch in custody for T. Rowe Price New Asia Fund
- 1.11% Labor Insurance Fund
- 1.10% Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds

Product Category in 2012



### 3.2 Our Future

The global economy was hit by the European debt crisis and the slowing economic growth of the United States and China in 2012. The domestic economic was also on a reversing trend due to the external impacts. Meanwhile, due to global climate change, the shortage of commodity supply, and the rising of global oil price, both the gross and core consumer price indexes had gone up during the past year. Civilian economy is still booming with the absence of real income increase. PCSC continues to highlight the low-price concept by promoting value combo-meal, offering low-price consumer stable products and developing private brands. Meanwhile, we also try to bring more added-values and differentiation to our product portfolio to bring to the consumers a great shopping experience.

Facing the ever-changing consumer market and the emerging trends, PCSC will aim at offering the ultimate convenience to the consumers and include CSR issues in its core strategic thinking. We will constantly innovate to launch products and services that differentiate from the competitors to let the consumers enjoy products that are safe, reliable and delicious. We will keep up with the consumer's preferences and trends and continue to offer products with superior value and quality to satisfy customer needs and extend the competitive edge. Based on the business philosophy of "diversified merchandise, premium quality, product sanitation and cordial service", PCSC effectively controls product quality, offers superior customer service, and continue to pursue excellence and growth to maintain its leadership as the best CVS brand in the country.

#### Risks and Opportunities

PCSC identifies the characteristics and impacts of specific risk categories including strategic risk, financial risk, liquidity risk, credit risk, and market risk for further analysis, measurement, monitoring, response, reporting and improvement. With regard to macro economy and industry trend, PCSC also conducts analysis on the front of economy, environment, society, consumer and localization to identify the opportunities and threats as followed:



#### Favorable Factors

- 1 The steady growth of dine-out population and the increasing demand for natural, organic and healthy foods.
- 2 Aging society emerging, late marriage and low birth rate contribute to the rising of elderly and singles market segment.
- 3 The fast growing penetration rate of smartphone and other mobile device contributes to information transparency and the emergence of online shopping industry. Consumers become more sophisticated and demand more entertainment and higher time-efficiency.
- 4 Tourists from Mainland China are permitted to travel individually in Taiwan and there will be more visitors from China.

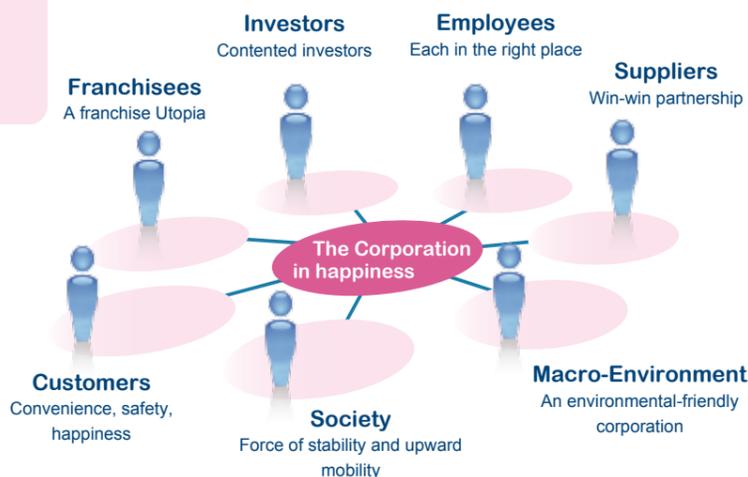


#### Unfavorable Factors

- 1 CVS market becomes saturated and low-price supermarkets are emerging. With the blurring of industry boundaries, the competition becomes more intensive.
- 2 Skyrocketing raw material prices and utility costs push up the total operational cost.
- 3 Inflation causes real income decline. Consumers remain cautious and conservative in spending.

#### Stakeholder Engagement

Success comes from communication. We communicate and engage with all of our stakeholders through a variety of channels to seek opportunities for cooperation and improvement via mutual understanding. We understand our stakeholder's expectation and identify future opportunities from their feedbacks to create values with all of our stakeholders.



**Investors:** PCSC holds firmly to the principles of sincerity and openness. We disclose our business and financial information through company's public website and carry on full communication with investors via institutional investors' meetings and domestic and foreign investors' conferences organized by brokers and the stock exchanges.

**Employees:** PCSC encourages direct communication between employees and the management. In addition to the headquarters' Customer Service Center and internet mailbox to answer employees' problems, we also maintain an internal suggestion system and employee complaint procedure so that employees can fully express their opinions about the company's operations. Meanwhile, we also work with Teacher Chang Foundation to provide employees with mental consultation and establish a "Happy Cooperative" to actively provide timely and effective consultations to the employees.

**Suppliers:** Our Joint Service Center provides a channel for communication with suppliers, employees, and consumers. We also host vendor meetings and supplier seminars on a regular basis to facilitate communication and deliver our policies.

**Macro Environment:** Joining with EPA and ITRI to keep up with latest trends and support environmental policies and innovative technology development, we also have developed a cloud surveillance system to monitor store power efficiency in real time.



**Society:** A charity section is set up at 7-ELEVEN website to announce the donation mechanism and results of ibon and coin donation for charity organizations and the general public to audit. Charity organizations will be invited to make proposals at the end of every year for us to learn the needs of the underprivileged and select charity partners for the next year. To clarify the spending on donations, PCSC formed a cross-department auditing team with representatives from the departments of auditing, accounting, legal and public affairs to track the spending and service results. The auditing report will be published on the website for public review.

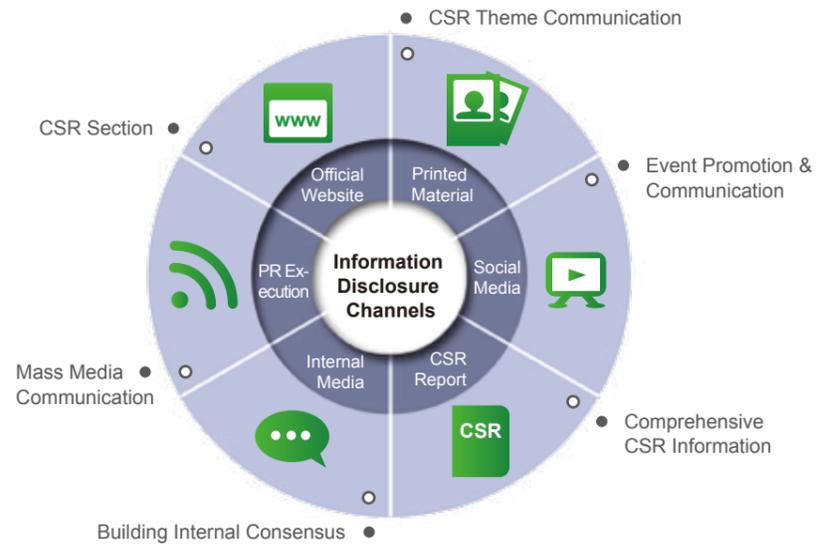
**Customers:** PCSC has set up a Customer Service Center as a single window with designated personnel to assure that incidents are handled properly and customers' needs are responded immediately. Therefore, a comprehensive mechanism for the Center's process flow has been instituted. The Center has handled a total of 147 issues in 2011 and 2012.

**Franchisees:** To facilitate real-time communication with franchisees, an online communication platform is

established to share information to all stores managers/franchisees and allow them to leave messages so that the concerned departments could response to the issue immediately. Operation Field Consultants(OFC) will visit the stores every week to deliver latest information and respond to franchisee's questions immediately. In addition, a monthly newsletter is published for the franchisees. The company will also host a variety of networking events for the franchisees, during which they could also communicate with executives face to face.



We also leverage our flexible marketing experience and disclose information via a variety of channels, such as Good Neighbor Foundation website, 7-ELEVEN Love the World Facebook Fan Page and CSR Report, to share our achievements with more stakeholders and sincerely accept the suggestions and feedbacks to further improve our works.



CSR is another core element of business philosophy. We understand that the promotion of CSR concept is a huge and long-term commitment, which is different from promoting physical products or services. Therefore, starting from the establishment of CSR Committee in 2010, PCSC has been thinking about how to incorporate the CSR concept into the routine management activities of each department and division. In addition to review the progress in the categories of "business ethics", "fair trade", "environmental management", and "community participation" on a regular basis, we also try to communicate the idea from the



headquarter to the executives in districts and store associates via a comprehensive program of internal training and education. We also think about how to fulfill our corporate social responsibility at the store level. Starting from the logistic headquarters, we promote CSR education step by step from the executives and employees at the logistic headquarter to the colleagues at regional section and stores.

during spring and fall every year to provide training for the first-line staffs at the stores. An interactive mechanism is established to help the store staff understand the core CSR concept and practices of the company.



After two years of efforts, the CSR Committee concluded its mission in a satisfactory way by instill the CSR concept in the corporate governance system. In order to strengthen each department's capability of CSR management, they are required to include CSR in their respective annual plan and become part of their operational performance because business transformation can only be initiated with the internalization of CSR. Including CSR in our corporate governance activities is the first step for us to promote business transformation. In the future, PCSC will continue to build an internal consensus on

CSR to make it part of our corporate culture for business strategy reform.

We have started to implement the educational program from 2011 by leveraging the business structure of the company: We start by conducting a cross-division meeting at the home office, the educational seminars for the supervisors at regional section around the island (including division directors, Zone Managers and OFC), and the regional workshops to listen to the feedbacks of franchisees and share best practices. A CSR best practice booth will be set up at the new product training and exhibition

### 7-ELEVEN "Love the World" Facebook Fan Page



PCSC have started to run the 7-ELEVEN "Love the World" Facebook fan page from 2009 and accumulated 1.26 million likes from the fans. We share the latest news of 7-ELEVEN stores with the fans that follow our fan page every day and post the latest CSR events on the page to invite participation. 7-ELEVEN "Love the World" fan page has become one of the most direct communication tool with the general public. We can feel the support from the interaction online, which provides us with the confidence to continue to do the right thing because the more we give, the more we shall receive.

### 3.3 Our Strategy and Approach

Facing a future full of uncertainties, not only have to adhere to the business philosophy of integrity, but also have to modulate our action plans and development strategies according to different trends and challenges. We have to develop the short, medium and long term business vision for the next 5, 10 and 20 years to respond to consumer's needs, promote social

sustainability, and grow into a world-class enterprise to become the best neighbor for consumers home and abroad.

We will start from the heart to reemphasize the business culture of PCSC at every aspect, be it the innovative products that meet customer's needs or the management approach for store operation. We promote

the product management methodology of TK thinking as the standard operational procedure for every employee to improve the seven fundamental elements of people, store, merchandise, system, logistics, management and culture. The structural change of thinking will contribute to sustainable business growth.