

# 02



## President Chain Store Corp.- Happy Products and Services



### 2018 KPI

- More than NT\$**40,000,000** was invested in product safety management.
- **100%** of PB/PL food product specifications were integrated into MAS prior to 2018.
- **80%** of PB material suppliers completed on-site evaluations.
- **100%** of privately owned product OEM factories completed on-site evaluations
- **100%** of domestic contract manufacturers for privately-owned products (not including suppliers of raw materials used in food products, direct raw materials suppliers, or egg suppliers) have obtained international/domestic food safety certifications, such as ISO22000/FSSC22000.
- **100%** of product systems warning that tobacco and alcohol products are not to be sold to individuals 18 years old or younger were online.
- **100%** of branches passed checks designed to ensure that they were not selling tobacco and alcohol products to individuals 18 years old or younger.

### 2017 KPI

- More than NT\$**40,000,000** was invested in product safety management.

Amount Achieved

Exceeded  
(NT\$**131,034,000**)



### 2016 KPI

- More than NT\$**39,000,000** was invested in product inspections.

Amount Achieved

Exceeded  
(NT\$**42,300,000**)



SDGs	SDG Target Details	2017 Efforts on SDGs
 <p>Zero Hunger</p>	<p>(2.1) By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round .</p>	<ul style="list-style-type: none"> <li>• PCSC attaches a great deal of attention to the issue of food safety. Our food safety policies, for example, “Focus on operations, traceability management, winning consumer trust”. To upgrade our food safety management, we set up a QC Lab in 2012 which is responsible for sampling products and raw materials before they put on shelves. PCSC invested NT\$131,034,000 in product safety inspections in 2017.</li> <li>• PCSC partnered with Taiwan Delica Foods to set up a privately owned product raw material and quality assurance management database (Raw material purchasing database, MAS) and implemented traceability management directed at material and supplier information. Product specifications in the MAS system are used to specify the raw materials in our privately own food products and the supplier. As of the end of 2017, 86% of the product specifications of our privately own food products had been completely entered into our MAS system.</li> <li>• On-site evaluations of single-use supplies suppliers were carried out 100%.</li> <li>• 100% of privately owned product suppliers completed on-site evaluations.</li> </ul>
 <p>Good Health and Well-being</p>	<p>(3.5) Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.</p> <p>(3.a) Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries, as appropriate.</p>	<p>100% of product systems warning that tobacco and alcohol products are not to be sold to individuals below the age of 18 were online.</p> <p>100% of branches passed checks designed to ensure that they were not selling tobacco and alcohol products to individuals 18 years old or younger.</p>

PCSC is best described by the terms “multipurpose”, “multifunction”, “convenient”, “all-inclusive”, and “ubiquitous”. In the 1980s, we began playing the role of “good neighbor”, setting up shops on large streets and in small alleys and becoming part of the daily life of the people living nearby. With more than 5,200 branches around Taiwan, our stores can be found everywhere from busy cities to remote areas. As a “good neighbor”, we have made it our mission to provide high quality, convenience, and reasonable prices as well as comfortable spaces where individuals can relax and interact. Customers that walk into our stores can sense the effort we put into our work and the passion we put into our service. To ensure that we remain a “good neighbor”, we provide products and services with high CP values that also create a feeling of happiness that characterizes PCSC.

We continued to improve our products. For example, for our fresh food products, we employed revolutionary production processes, technical cooperation with external partners, and new structures to develop product differentiation. We also worked with major factories both in Taiwan and around the world on our own privately owned brands, like iselect and UNIDESIGN, so we can offer customers more made in Taiwan quality products.

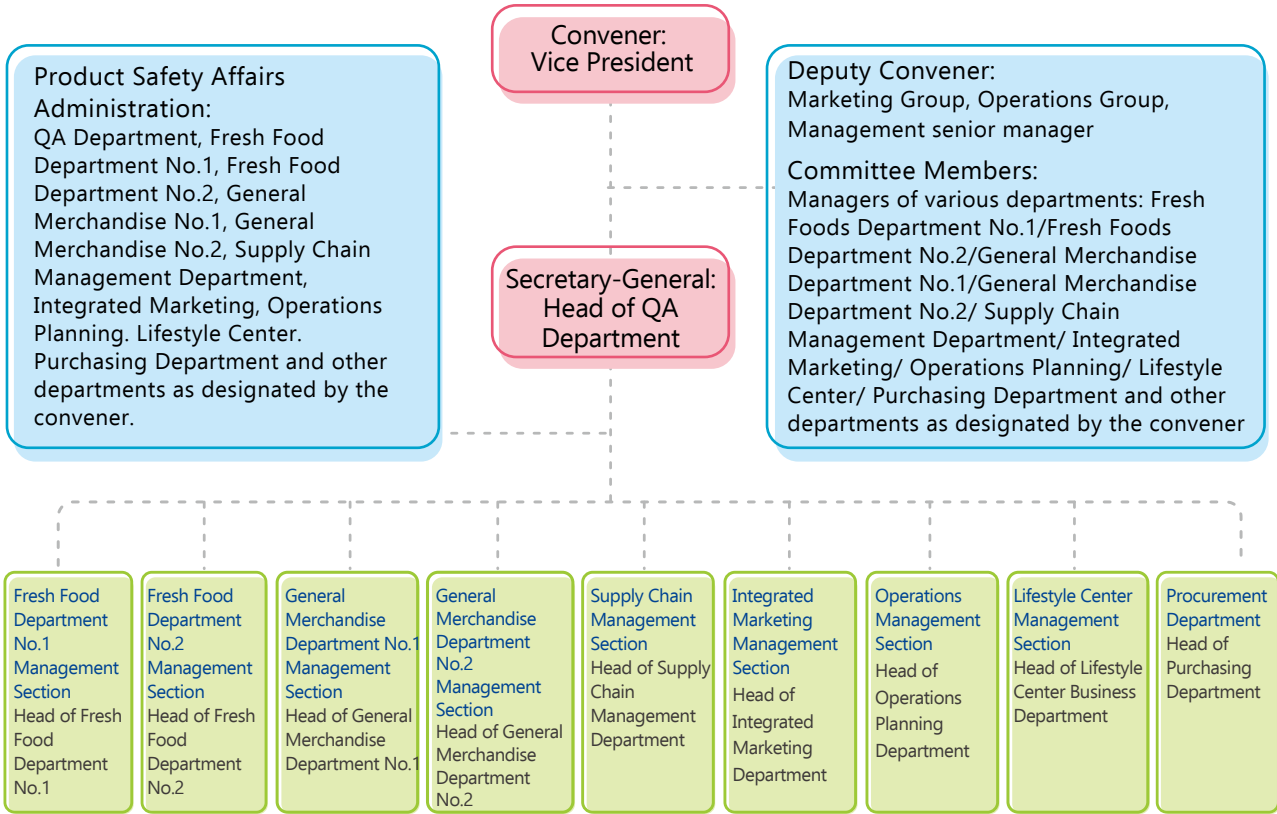
## 2.1 Source of Happiness – Product Safety Management

PCSC attaches a great deal of importance to the issue of food safety. Our food safety policies, for example, "Focus on operations, traceability management, winning consumer trust". It is our responsibility and desire to provide safe food. To set up a series of food safety checkpoints, we set up a Merchandise Safety Committee, established internal control mechanisms and upgraded the our QC Lab's testing capabilities. PCSC invested NT\$131,034,000 in product safety inspections in 2017.

### Merchandise Safety Committee

The Merchandise Safety Committee is convened by the vice president and co-convened by the senior manager of the Marketing Group, the senior manager of the operations group, and the head of the Management Group. The head of the Quality Assurance Department is the secretary-general of the committee. PCSC also set up the Product Safety Affairs Administration to be responsible to collect and integrate product safety related issues. It has eight operation teams under it and department heads serve as team leaders. In June 2017, because of revisions to the organizational structure necessitated by the food safety testing program, the Procurement Department was included into the Merchandise Safety Committee organization.

The Merchandise Safety Committee established a systematic management system covering 100% of PCSC's privately owned products to ensure safety and quality. In 2017, the committee convened three times, discussing such topics as government laws and regulations, contract manufacturers and supplier assessment deficiencies, product safety information, food safety testing program, and implementation progress.

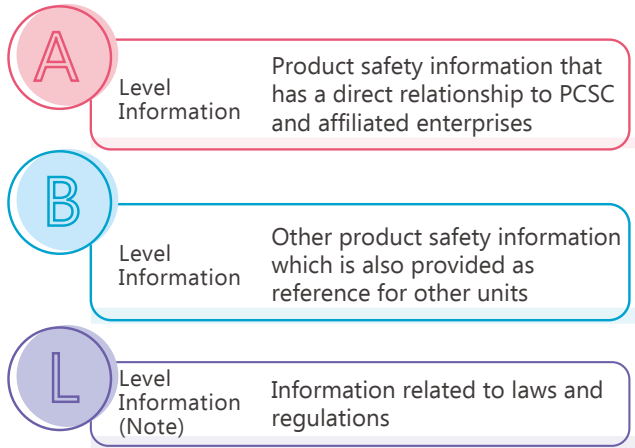


Note: This organizational structure chart was revised in June of 2017.



## Product Safety Information

To manage product risk and ensure the safety of our products, PCSC drew up the "Product Safety Information Collection, Assessment, and Tracking Procedure". It is used to collect relevant product safety information and track procedures for 100% of all PCSC privately owned products. In 2017, a total of 922 product safety messages were collected, including 7 A Level, 733 B Level, and 182 L Level.



Note: In November of 2017 "C Level" was replaced by "L Level" to indicate "Information related to laws and regulations".

## Traceability Management

Due to food safety issues in recent years, the government has invested a great deal of effort in ensuring food safety and established a number of measures. In addition to amending laws and regulations to increase criminal liability and penalties, it has also established many compulsory traceability measures. 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 privately owned product raw material and quality assurance management database (Raw material purchasing database, MAS) and implemented traceability management directed at material and supplier information. Product specifications in the MAS system are used to specify the raw materials in our privately own food products and the suppliers. As of the end of 2017, 86% of the product specifications of our privately own food products had been completely entered into our MAS system.

In September 2017, the MAS system was upgraded as we began integrating product specifications with raw material operations, now employing online methods to manage the system, instead of traditional paper documents. Using electronic files and managing centrally through servers allows users in the various departments to check, maintain, and manage the system simultaneously, so that comprehensive checks can be carried out on all raw materials.

## QC Lab

Established in 2012, PCSC's Quality Control Lab is responsible for testing products before they are placed on shelves. It conducts rigorous tests for veterinary drug residue, pesticide residue, food additives, biological toxins, mycotoxins, microorganisms, and fake ingredients to ensure product safety. Our QC Lab obtained certification from the Taiwan Food and Drug Administration (TFDA) for the first time in 2014 and in May of 2017 received an extension valid until 2020. As of the end of 2017, the QC Lab established 580 tests in accordance with CNS and relevant bulletins/guidelines issued by the TFDA or other agencies as well as 137 non-standard tests set up by our QC Lab.



### Taiwan Accreditation Foundation (TAF) Certified Items

ISO/IEC 17025:2005 microorganism tests	4
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### Taiwan Food and Drug Administration (TFDA) Certified Items

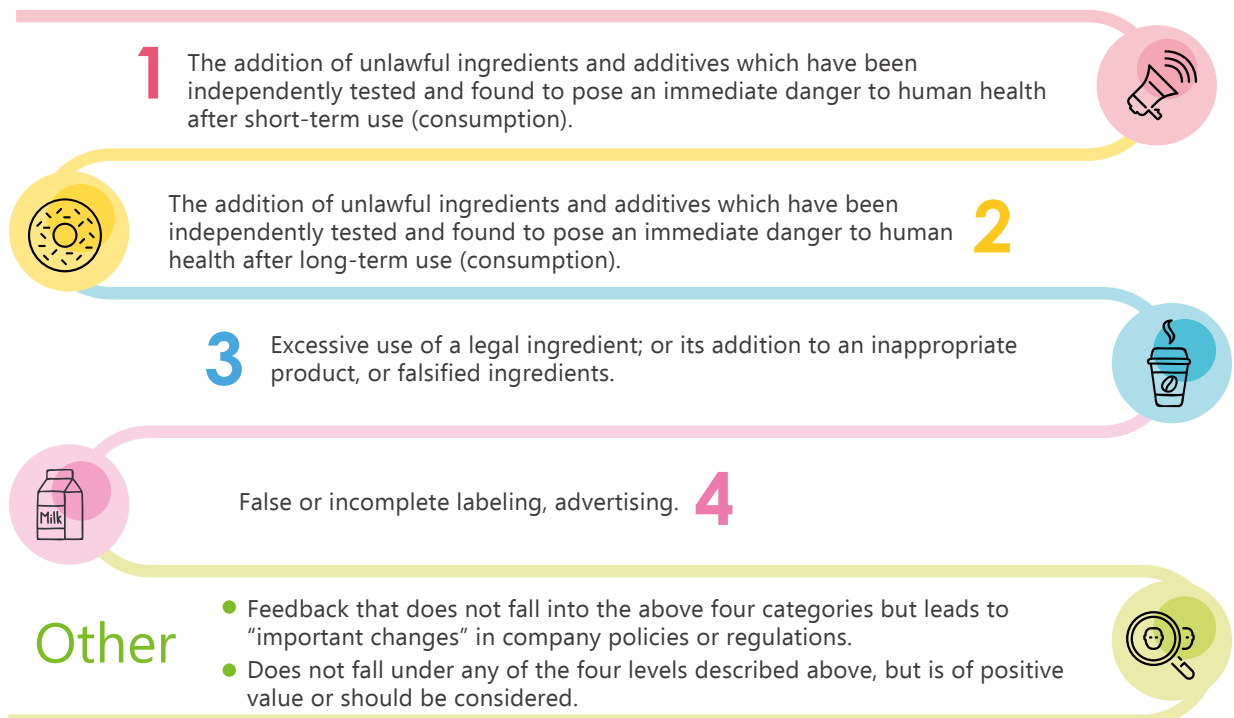
Nitrofurantoin metabolites	4
Chloramphenicol antibiotics	4
Multiresidue analysis (2)	48
Microorganisms	4
Colorants	8
Ochratoxin A	1
Patulin	1

In 2017, 963 of 983 product and raw material items tested passed for a passing rate of 98.0%. Suppliers are required to determine why items did not pass and take corrective action. Failed products are also removed from shelves as a preventive measure or enhance the external inspection to ensure the food safety. QC Lab's operating costs were NT\$27,751,000, including expenses accrued from outsourced testing NT\$5,947,000 (Note), accounting for 0.019% of overall operation income. The year's product safety management investment costs stood at NT\$131,034,000, exceeding 2017's KPI set at NT\$40,000,000.

Note: QC Lab costs include testing, salaries, depreciation, rent, equipment maintenance, and miscellaneous purchases.

## Internal Product Safety Monitoring Mechanisms

The "Privately Owned Products Safety Assurance Guidelines" were implemented primarily to establish an internal product monitoring system. Personnel from back offices and company-operated stores as well as franchisees are encouraged to notify the company if they have any suspicions about any advertising, labeling, or ingredients of any PCSC private brand products. Individuals submitting reports confirmed by the Merchandise Safety Committee are given awards, the amount of which depends on the severity of the level of risk involved. In 2017, two internal whistleblower complaints were issued, receiving a total of NT\$2,000 in rewards.





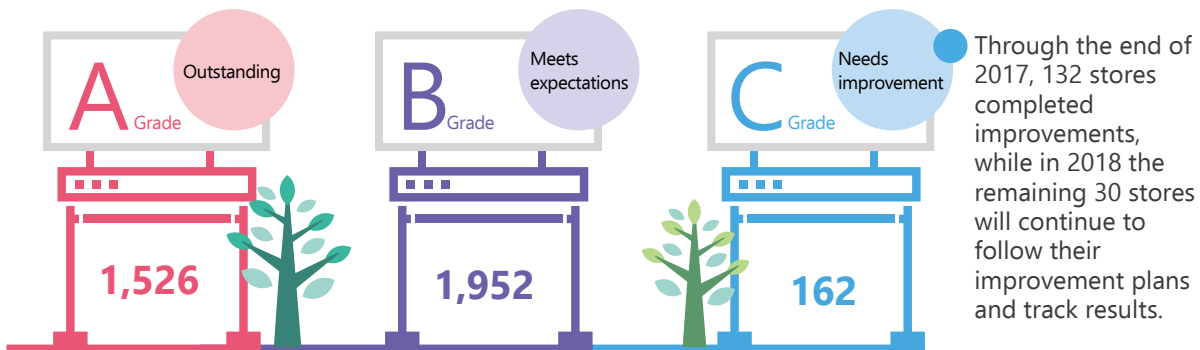
## Primary Logistics

In order to ensure that customers can shop at our stores and use our products rest assured that they have obtained quality products, we work with logistics companies to incorporate primary logistics and branch product management and service review. This enables PCSC to realize comprehensive top-to-bottom product control, ensuring that quality is maintained throughout from delivery to storage and display.

Temperature, personnel, and hygiene during the logistics process also have a direct effect on product quality. Therefore, PCSC adopted primary logistics management 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. In 2017, the product categories for which primary logistics was introduced and implementation achieved 100% included fast foods (rice products, noodle products, salad), rice, bread products, bananas, and fresh vegetables (not including corn on the cob and bamboo shoots).

## 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 2017, audits were held at 3,640 stores and 1,526 stores received an A grade. Locations earning a C grade received coaching from the operations team and store-wide meetings were held 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 2017, audited stores represented 99.2% of all stores (Note). In 2017, 22,394 checks were performed with 21,809 earning a passing score for a pass rate of 97.4%.

Note: Because a small number of stores closed in early 2017 or opened in late 2017, they were not audited in 2017.

In addition to the aforementioned store checks, PCSC continued to hold quality assurance training for the staff of new and existing stores to enhance overall staff quality assurance capabilities. In 2017, 23,488 people participated in training. Beginning in July 2016, PCSC also commissioned a management consulting firm to audit store quality assurance training certification. 99.6% of branches in Taiwan received such audits in 2017 (Note). 55 did not pass and were audited again the following month. Two branches did not pass, because they did not present all the necessary paperwork during their previous audit. They audited by Capital after receiving training from the consulting firm. All other branch personnel passed after being audited a second time, completing "Quality Assurance and Ethical Corporate Management Certification".

Note: A small number of stores opened in late 2017 and were not audited in 2017.

## 2.2 Happy Communication - Excellent Service and Quality Assurance

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

In addition to protecting consumer rights, we hope to provide quality and friendly products and services that truly meet customer needs. In May of 2015, we set up a Customer Relationship Management (CRM) system using the icash card and OPENPOINT member information databank. The CRM system can be used to analyze customer profiles (including such information as gender, region, occupation, and age bracket) based on products sold to them and analyze product mixes (i.e., which products are commonly purchased together, e.g., soy milk and bananas). It is also used to analyze the holding power of new products, new products and the types of customers that might like them, and which market segments are loyal to brands. For example, we used the CRM system to analyze the idea of selling bread and CITY CAFÉ together. By analyzing data, we can determine the feasibility and benefits of selling various product combinations and thereby ascertain the relationship between buying a specific type of bread and CITY CAFÉ and how much influence coffee has on the purchase of that bread.

As of December 31, 2017, 1.15 million people registered to be VIPs with OPENPOINT. This huge membership databank enables us to carry out various kinds of case analyses each year. From September 2014 when the CRM system was formally inaugurated to the end of 2017, we analyzed 30 projects by using the system, enabling us to provide customers with better services and quality, helping us to become a better neighbor in communities throughout Taiwan. In 2018, PCSC added big data analysis which has served to refine our use of the CRM system, allowing us to carry out better customer purchasing behavior analysis and performance tracking.

## 2.3 Maintaining Happiness – Sustainable Supply Chain Management

As of December 31, 2017, PCSC boasted over 5,200 branches around Taiwan, representing the fact that our hard work to become a good neighbor in communities, offering happy products and services has been recognized by consumers. It also shows that PCSC has more responsibility. In order to ensure that customers can assured that they are buying safe, healthy products from us, we keep a high standard on all of our products, from the source of origin of the raw materials to our suppliers and product distribution to product management in stores.

### Suppliers

PCSC's suppliers can be split into three different categories, producers of non-privately owned products, privately owned products<sup>1</sup>, including private brand (PB) and private label products (PL), and others.

In the 1980s, PCSC began developing its PBs, starting with tea flavored boiled eggs in the self-service area. Later, we strived for developments that differentiated us from other retail channels. These include fresh foods, all PB, which were developed in light of such trends in Taiwan as eating out three times a day, drinking coffee, and the improvement of the quality of life (leading for a demand for fresher foods). This has been coupled with market surveys, consumer interviews and feedback, retail data analysis, and trend studies of nearby markets (Japan). PCSC strives for differentiation with other retail channels in the development of its fresh foods through a complete product structure, including product diversity, product compatibility, as well as food, beverages, and nutrition that meet the needs of consumers. New products are test marketed to determine consumer acceptability. When promoting product mixes, we take into consideration consumer eating behavior models and refer to the latest trends (e.g., having fruit/beverages with lunch). We also use the nutritional plans of local Departments of Health to enhance the nutritional value of meals for children. Nutritionists go to branch stores to mix and match food for healthier meals.

<sup>1</sup>PCSC's Fresh Food Department and General Merchandise Department collaborates with strategic alliance vendors to develop dedicated and exclusive products (excluding authorized products, such as OPEN...) which are marked with the PCSC label. Privately owned products, including those under private brands and private labels. Private brand products, such as onigiri and oden, are exclusive products mass produced under contract or developed in cooperation with other manufacturers. Private label products are private brand products designed by ourselves



By working with and managing suppliers, PCSC helps ensure the healthier and safer lives for consumers. We want to work with suppliers that share our views on quality and recognize the importance of self-management. Due to the special characteristics of our industry, PCSC does not operate its own factories, instead our private brands are produced by contract manufacturers. As such, we have drawn up the "PCSC's Private-Owned Product Supplier Code of Conduct" for our suppliers. We have also 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 and direct raw material suppliers, and egg suppliers) are listed in the "Areas Covered and Percentage of Rating in Supplier Assessments" 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 materials and egg suppliers. The scores are also discussed further below.

### PCSC Private Brand Supplier Behavior Guidelines:

1

Suppliers are not to violate any laws related to workers and are to offer equal employment opportunities. If they employ any individuals with disabilities or provide "sheltered employment for individuals with disabilities", their regulations regarding worker rights are to conform to relevant laws and regulations.

2

Raw materials, products, or services provided by suppliers are expected to be in accordance with current technological standards to a reasonable degree and with environmental protection, food safety, and other relevant laws and regulations, so that the Earth's resources can be utilized in a sustainable manner.

3

Suppliers, PCSC, and their members are not to be involved in any activities of any kind to obtain unwarranted interests.

In addition to drawing up the "PCSC's Private-Owned Product Supplier Code of Conduct" and the "Privately-Owned Product Contract Manufacturer On-Site Evaluation Management Guidelines", "Regulations Governing Raw Material Suppliers and Raw Material Management", "Regulations Governing the Management of Egg Raw Materials for Commercial Use", we require that all of our suppliers sign an "Agreement of Ethical Corporate Management and the Corporate Social Responsibility". In the event that a firm is unwilling to sign the agreement, we are to first determine whether or not they already have similar regulations of their own. If they don't, then we are to attempt to communicate with them and ask that they commit to the important items in the agreement. In the event that communication has no effect, but we still need to purchase from them, we require that they firm sign an "Integrity and Honesty Declaration". The "Ethical Corporate Management" clause of the "Agreement of Ethical Corporate Management and Corporate Social Responsibility" requires that suppliers not be involved in any activities to gain inappropriate advantages, including but not limited to the giving of bribes or gifts. The "Corporate Social Responsibility" clause requires that suppliers guarantee the rights of workers, do not discriminate, ensure equal employment, and the products and services that they provide meet environmental and safety standards required by law and that they do their best to reduce any adverse impact on human health and the environment.

### Supplier Assessment Findings and Rating Standards:

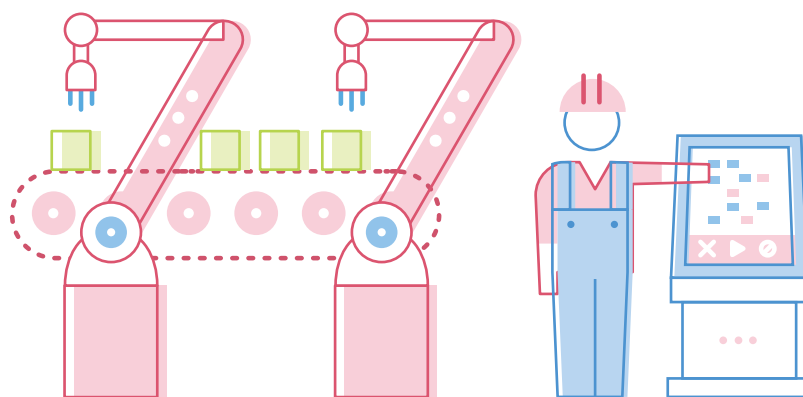
Score	Rating explanation
A	90 points or more
B	80~89 points
C	70~79 points
D	69 points or less

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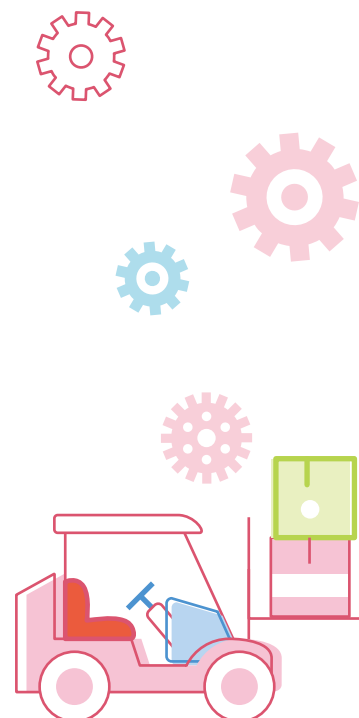


## Areas Covered and Percentage of Rating in Supplier Assessments




### 1.Contract Manufacturers



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



In addition, we have the following requirements for new suppliers:

 <p>1 Lawful conditions</p>	<p>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 products and brands outsourced for processing. Overseas contract manufacturers should follow the relevant local legislation of their home countries.</p>
 <p>2 Quality certifications</p>	<p>Priority considerations are given to those with CAS, TQF, HACCP, or ISO22000 quality certification.</p>
 <p>3 Sound management system</p>	<p>Proper quality management, internal QC capabilities, production management, and hygiene management.</p>
 <p>4 Raw material traceability</p>	<p>Raw materials are to be traceable to ensure products satisfy relevant national food safety and health regulations concerning pesticides, veterinary drug residue, and heavy metals.</p>



## 2. Direct Raw Materials Supplier

### (1) Factory Type

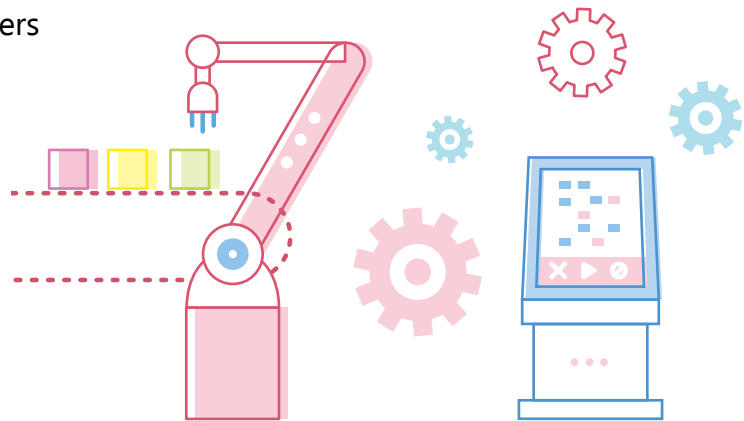
No.	Area Reviewed	Percentage of Score
1	Factory equipment and environment sanitation management	19.0%
2	Processing personnel sanitation management	8.0%
3	Production process control	15.0%
4	Quality control	27.0%
5	Raw material control	14.0%
6	Storage and transportation control	7.0%
7	Customer complaints and continuing to improve	5.0%
8	Has environmental protection guidelines	5.0%
9	Product supply capabilities	Not scored

### (2) Trade Type

No.	Area Reviewed	Percentage of Score
1	Factory grounds sanitation management	18.0%
2	Processing personnel sanitation management	5.0%
3	Production process control	6.0%
4	Quality control	29.0%
5	Raw materials (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 product supply capabilities	Not scored

### (3) Agricultural and Livestock Suppliers

No.	Area Reviewed	Percentage of Score
1	Raw material control	30.0%
2	Quality and product supply capabilities	10.0%
3	Plant cleanliness and sanitation	30.0%
4	Production process control	30.0%

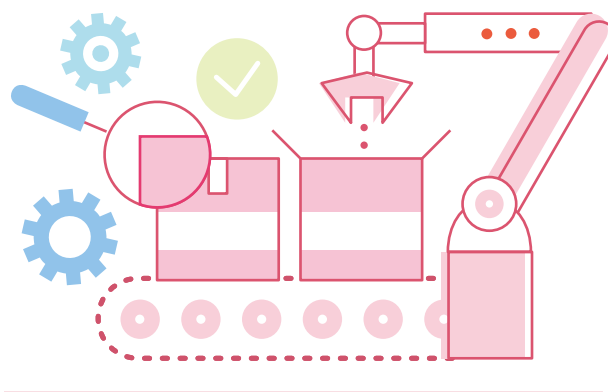


In addition, we have the following requirements for new suppliers:




	1 Lawful conditions	Holds valid documentation, such as company registration, factory registration.
	2 Quality certifications	Priority considerations are given to those with CAS, TQF, HACCP, or ISO22000 quality certification.
	3 Assessment documents	When new raw materials are introduced, raw material traceability documents and risk assessment documents are to be provided.

#### (4) Egg Product SuppliersSuppliers

No.	Area Reviewed	Percentage of Score
1	Production area environment	2.2%
2	Factory facilities	33.2%
3	Equipment and packaging materials	13.3%
4	Production process management	8.9%
5	Quality management	6.6%
6	Sanitation management	6.6%
7	Transportation management	4.4%
8	Product sampling results	2.2%
9	Raw materials and product checks	8.9%
10	Risk management	13.7%



In addition, we have the following requirements for new suppliers:

	1 Quality certifications	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).
	2 Packaging and labeling	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.
	3 Inspection	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.

In order to improve suppliers product quality, we are pushing for privately owned food product suppliers to acquire ISO22000 certification for food safety and health management system. During 2017, there were 51 suppliers (including contract manufacturers and direct raw material suppliers, and egg suppliers) for PCSC privately-owned food products that operate a total of 95 factories. 62 of the 95 factories located in Taiwan and all of them had ISO22000 certification.

### Frequency of On-site Inspections for Contract Manufacturers

PCSC established "Risk Grading Assessment Guidelines" for food product contract manufacturers to serve as a basis to evaluate risks. It completed risk assessments for 64 food contract manufacturers based on these guidelines in 2016 and assigned risk grades to serve as a basis to determine the frequency of on-site inspections for contract manufacturers in 2017. It started carrying out inspections on 1 January 2017.

Risk grades use the indicators listed in the guidelines to calculate the composite risk values of PB, PL contract manufacturers for each year (January ~ December). The basic risk value+weighted risk value +major risk value = composite risk value. Composite risk values  $\geq 70$  points are considered high risk;  $< 70$  points are considered low risk. Of the 64 contract manufacturers producing privately owned food products assessed in 2016, 35 were deemed to be high risk, while 29 were low risk.



The frequency of on site inspections is based on contract supplier assessment ratings and composite risk values. In 2017, 51 privately owned food product suppliers (including contract manufacturers, direct raw materials supplier, and egg product suppliers) had cooperative relationships (Note 1) with PCSC. Audits were completed on 100% of them (Note 2). Of the 192 audits carried out on these 51 suppliers, 188 audits, or 97.9%, were passing. Apart from issuing fines to non-conforming suppliers in accordance with the merchandise quality contract, suppliers were also asked to undertake corrective measures and be re-evaluated. All have now achieved passing scores.

Notes:

1. Defined as (1) existing suppliers that passed new supplier assessment and the internal approval prior to 2017. (2) New suppliers that received certified standards in 2017. (3) Those that in 2017 applied to terminate appraisal and were approved are also counted.
2. Business and contract production was ended with four contract manufacturers, two direct raw materials suppliers, and one egg product supplier prior to the evaluation frequency deadline specified for the rating achieved in their pre-supplier evaluations. Therefore, as stipulated in relevant regulations, no further evaluations were required in 2017.

Comparison Table of Frequency of On-site Inspections of Domestic Contract Food Manufacturers:

Level Result Risk Level	Level A ≥90 points	Level B 89~80 points	Level C 79~70 points	Level D ≤69 points
	Pass		Failed	
Low Risk	12 months	6 months	Be reviewed for 3 consecutive months and pass the assessment	Be reviewed for 3 consecutive months and pass the assessment or termination of contract.
Higher Risk	6 months	4 months		

Comparison Table of Frequency of On-site Inspections of Overseas Contract Food Manufacturers:

Level of Evaluation	Grade of on siteevaluation	Result	Frequency of evaluation / action
Level A	≥90分	Pass	Once a year and completed the evaluation at the current year.
Level B	89-80分	Pass	
Level C	79-70分	Failed	Contract manufacturers have to stop the production arrangement. They can return to normal If they passed the evaluation within 6 months. Otherwise, the production will be terminated.
Level D	≤69分	Failed	

### Store Supplies Suppliers:

In 2017, PCSC had 10 store single-use supplies suppliers in Taiwan (Note 1). Audits were completed 100%(Note 2). 13 audits were carried out on the 10 suppliers. A total of 13 evaluations were carried out on the 10 suppliers and all of them passed. Please see the following table "Areas Covered and Percentage of Rating" and "Table of frequency of audit, standard of suppliers assessment ratings and standard for passing evaluations".

Note:

1. "Store supplies suppliers" are domestic manufacturers that provide items that come in contact with food, like single-use paper cups and bowls, provided to customers as a service.
2. Business and contract production was ended with Pack & Proper prior to the annual evaluation. Therefore, as stipulated in relevant regulations, no further evaluations were required in 2017.

### Areas Covered and Percentage of Rating


No.	Area Reviewed	Percentage of Score
1	Management	5.1%
2	Quality Management	8.9%
3	Environmental Status	3.1%
4	Merchandise innovation	3.4%
5	Purchase and Raw Material testing	19.9%
6	Producing and packing	15.1%
7	Health, safety and working condition	13.0%
8	Product	10.3%
9	Storage and transportation	9.6%
10	Customer complaint	4.8%
11	Product specification check	6.8%

Table of frequency of audit, standard of suppliers assessment ratings and standard for passing evaluations


Level of Evaluation	Grade of on site evaluation	Result	Frequency of evaluation / action
Level A	≥90分	Pass	Once a year and have to complete the evaluation at current year.
Level B	89-80分	Pass	
Level C	79-70分	Pass	
Level D	≤69分	Failed	Be reviewed and pass for 3 consecutive months or termination of contract. Immediately.

### PCSC’s Key Suppliers


In 2017, PCSC had 17 key suppliers. Key suppliers are defined as follows:



**Procurement Department**  
Suppliers of food packaging which suppliers are directly related to branch store operations with procurement amounts of over NT\$30,000,000.



**Key tier**  
Top five suppliers of private brand products in terms of trade volume with PCSC during the previous year.

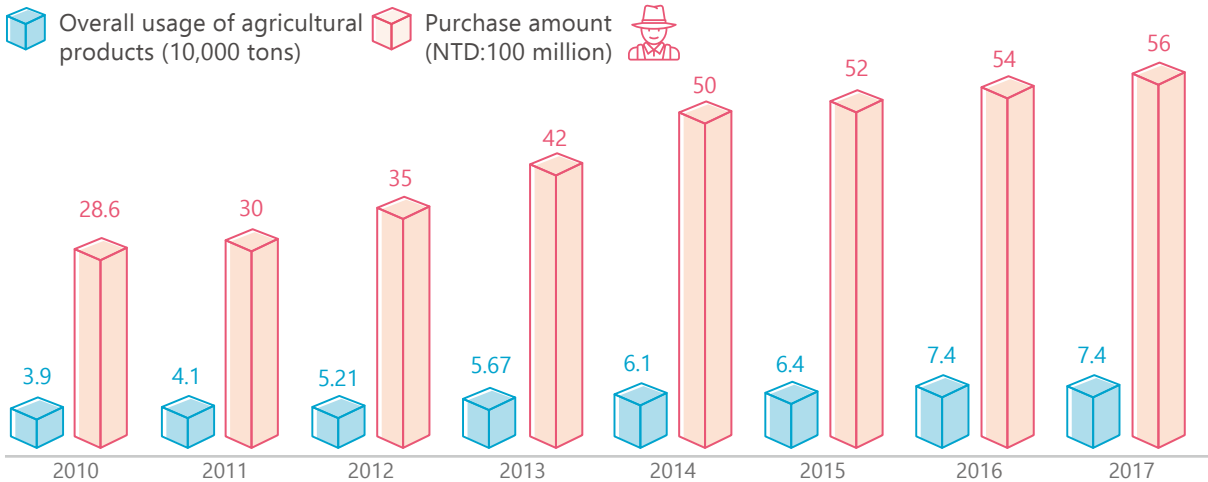


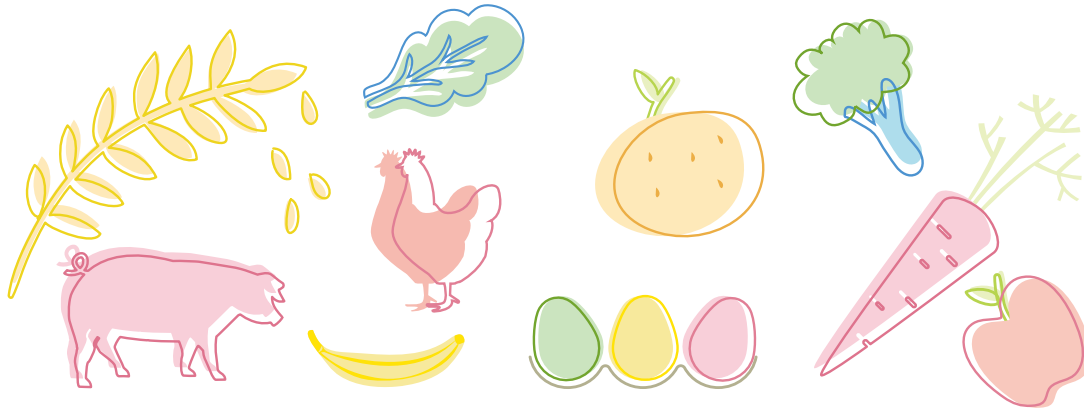
**Non-key tier**  
Top ten suppliers of PB raw materials in terms of trade volume with PCSC during the previous year.

### Source Farm Management

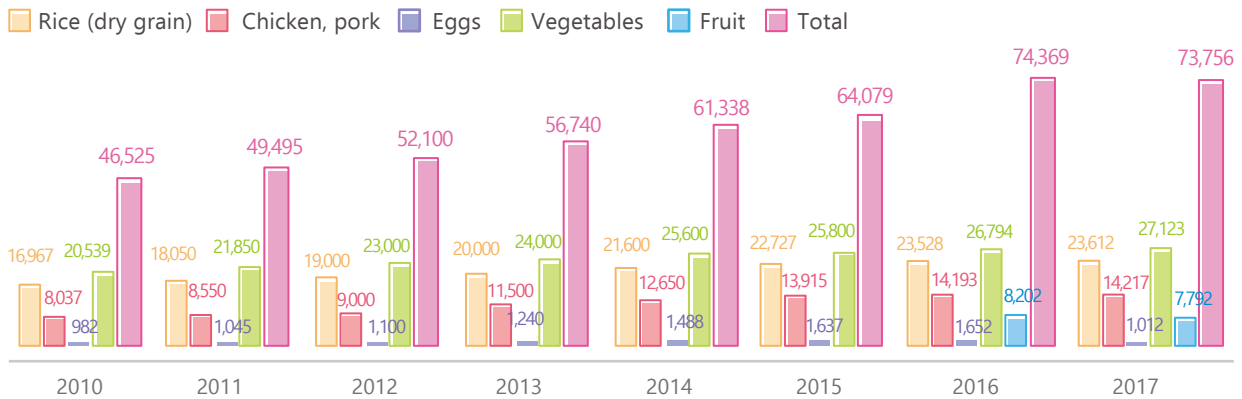
PCSC’s food products are healthy and fresh and made only from high quality and local agricultural produce. PCSC has partnerships with farmers in Taiwan. Their fresh food factories produced 74,000 tons of agricultural produce which was purchased by PCSC for NT\$5.6 billion.

#### Amount Used Over the Years



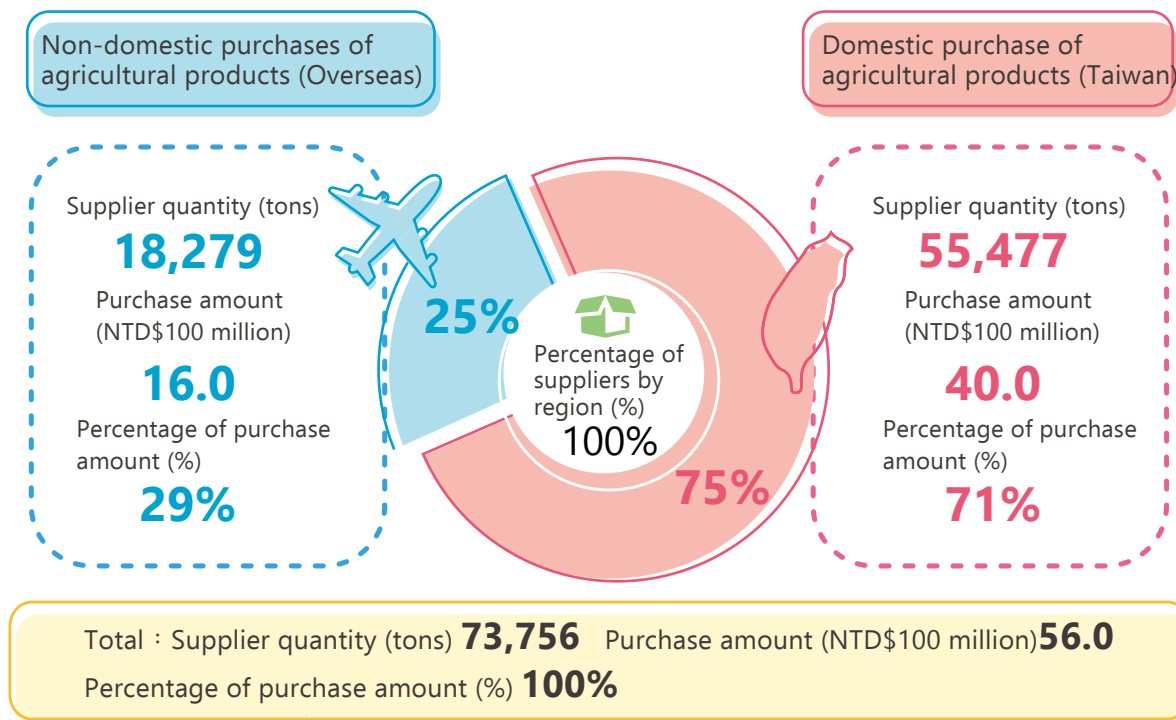


### ○ Raw Material Usage (Tons)



2

In order to encourage agricultural development in Taiwan and reduce our overall environmental footprint, PCSC continues to increase local procurement. In 2017, Taiwanese suppliers represented 76% of total procurement and NT\$3.99 billion (72% of total procurement dollars).



## 2.4 Guarantee of Happiness - Legal Compliance

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. For non-private brand products, we work with suppliers to ensure regulatory compliance through communication, testing, and our auditing mechanisms. In 2017, no 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. 100% of the warning systems stating that PCSC is not permitted to sell tobacco or alcohol products to minors 18 years old or younger were online in 2017. Branches passed 100% of checks to ensure that tobacco and alcohol products were not being sold to minors 18 years old or younger.

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 2017 for violating any laws or regulations mentioned above.

### Product labeling

Honest labeling is our first promise to customers. PCSC requires all suppliers to sign a declaration of guarantee, stating that their product ingredients, production processes, labeling, and advertising all comply with the law. In accordance with "Privately Owned Product Labeling and Advertising Content Review", PCSC also checks its own privately owned products.

### Information Security Management

With advances in technology and shifts in consumer behavior, PCSC offers convenient services, like multifunctional digital services, including online stores, fund transfers (ibon/ibon APP), logistics (Delivery), and information flow (icash2.0/OPENPOINT), that touch the hearts of customers. PCSC, however, needs consumers to provide their personal data both in physical stores and on-line stores. To ensure consumer privacy, PCSC established a cross-departmental "Personal Information Protection Task Force" to regularly conduct personal information inventories, risk analysis, internal system evaluations, bulletin updates, education and training, and data disposal. We also developed mandatory online personal information training courses for employees at company headquarters and stores; the current implementation rate is 100%. In addition, to ensure the effective operation of the personal information protection mechanism, PCSC started external verifications in 2012. In 2014, PCSC received Taiwan Personal Information Protection and Administration System (TPIPAS) certification. In 2016, we applied for recertification and passed the audit, thereby successfully retaining certification. There were no privacy-related complaints or violations at PCSC in 2017.



## ibon WiFi Information Security Protection Upgrade Offers World-class Protection

According to National Communications Commission (NCC) statistics, 70% of Taiwan's 28.53 million telecommunications users need internet access, including 10 million that use unlimited internet access, underscoring the fact that many people still employ WiFi services to get online. 7-ELEVEN provides free WiFi and has accumulated more than 2.17 million members. An average of 7,000 members use the service every day. In addition, 7-ELEVEN sells ibon recharge cards for one day and one week as well as cards that provide certain numbers of hours to meet the needs of different customers. The convenience and immediate nature of these cards have made them indispensable for many. On the other hand, due to its convenience and public nature, public WiFi has hidden information security risks. In the event that a hacker hacks into or it is attacked digitally from the outside, it is very easy for user information to be stolen. In order to provide safer WiFi services, after a year of planning and preparation, ibon WiFi received international certification, including the ISO27001 Information Security Management System (ISMS) and the NCC ISO27011 supplementary audit form, from the British Standards Institution (BSI) in January 2017. On 22 February 2017, it received a charter and the standardization and internationalization of our information security management mechanism have served to effectively enhance our information security, so that we can provide customers safer service. This is a concrete example of PCSC fulfilling its commitment to service quality.



2

President Chain Store Corp. - Happy Products and Services



## Complaint Mechanism

PCSC established the Joint Services Center to serve as a communication channel for internal and external to make inquiries or lodge complaints regarding products and services through the Center's dedicated hotline and email inbox. When customers leave a complaint or suggestion with us, a case file is opened to ensure proper resolution. Only after the customer receives a satisfactory reply is the case file considered closed. In 2017, the online resolution rate was 89.2%.