

Letters to Shareholders

Dear Shareholders,

Thank you for your steadfast support over the past year. Pili International Multimedia Co., Ltd. began with glove puppetry television dramas and has grown into a comprehensive media entertainment company through years of development. We continue to uphold the spirit of "Tradition has no end, Innovation has no boundaries," maintaining our original thinking and emphasizing our core values of "Culture, Aesthetics, Innovation, and Harmony" while pursuing steady and sustainable growth.

Since officially listing on the Over-the-Counter (OTC) market in October 2014, becoming the first publicly listed cultural and creative industry representative, Pili has continuously enhanced its corporate governance quality, expanded its operational scale, and improved shareholder value. Looking ahead, we hope to promote the glove puppetry culture internationally under the principles of cultural inheritance, innovation, and sustainable management. Our goal is to create a "Disney of the East" and establish a dream kingdom with an Eastern original fantasy trend.

1. Business Performance Report for Fiscal Year 2023

For fiscal year 2023, the consolidated operating revenue was NT\$319,596 thousand, a decrease of approximately 20.11% compared to the previous year's NT\$400,067 thousand. The gross profit was NT\$14,048 thousand, a decline of approximately 79.07% compared to NT\$67,103 thousand in the previous year. The after-tax net loss was NT\$191,844 thousand, an increase of approximately 55.72% from the previous year's after-tax net loss of NT\$123,199 thousand, resulting in an after-tax loss per share of NT\$3.71. The key points of the company's consolidated operating results for 2023 are summarized as follows:

Results of Business Plan Implementation

(1) Item | 2023 | 2022 | Difference Amount | Increase (Decrease) Percentage

Item	2023		2022		Difference Amount	Increase (Decrease) %
	Amount	%	Amount	%		
Net Operating Revenue	319,596	100	400,067	100	(80,471)	(20.11%)
Operating Costs	305,548	96	332,964	83	(27,416)	(8.23%)
Gross Profit	14,048	4	67,103	17	(53,055)	(79.07%)
Operating Expenses	239,952	75	262,111	66	(22,159)	(8.45%)
Operating Loss	225,904	71	195,008	49	30,896	15.84%
Non-Operating Income and (Expenses)	34,060	11	85,645	22	(51,585)	(60.23%)
Pre-Tax Net Loss	191,844	60	109,363	27	82,481	75.42%
After-Tax Net Loss	191,844	60	123,199	31	68,645	55.72%
After-Tax Loss Per Share	(3.71)		(2.37)			

(2) Financial Income and Expenditure and Profitability Analysis

Item		2023	2022
Financial Structure	Debt-to-Asset Ratio (%)	49.91	41.51
	Long-Term Funds-to-Property, Plant, and Equipment Ratio (%)	182.56	211.20
Debt Repayment Capability	Current Ratio (%)	206.17	309.76
	Quick Ratio (%)	177.59	262.88
	Interest Coverage Ratio (Times)	(15.72)	(13.23)
Profitability	Return on Assets (ROA) (%)	(10.92)	(6.59)
	Return on Equity (ROE) (%)	(21.11)	(11.46)
	Pre-Tax Profit to Paid-in Capital Ratio (%)	(37.39)	(21.31)
	Net Profit Margin (%)	(60.03)	(30.79)
	Earnings Per Share (EPS) (NT\$)	(3.71)	(2.37)

2. Summary of the Business Plan for Fiscal Year 2023

of 2023, switching to a weekly chapter format and increasing the price to NT\$130. This change was primarily due to optimization of production capacity and enhancement of filming quality.

In response to this model, Pili actively communicated with convenience stores, promoting weekly chapter releases and accompanying measures. Additionally, preparations are underway for an important plan for 2024, transitioning DVD releases to an exclusive single-channel distribution model. This involves negotiations for business adjustments and exclusive marketing support, aiming to achieve more economically efficient results in DVD distribution.

At the same time, Pili's online viewing options are being adjusted accordingly. New competitive semi-annual and annual discount plans will be launched to maintain viewing habits among online members. The goal is to guide members of the NT\$199 plan and single-disc plan towards long-term high-value plans, maximizing revenue.

In social media operations, Pili began to focus on short video viewing habits by establishing a presence on platforms such as TikTok and YouTube Shorts. This includes creating various entertaining short clips of Pili heroes behind the scenes, as well as editing exciting segments from the main dramas. These efforts are intended to provide more opportunities for audiences familiar with these platforms to engage with Pili's content and drive traffic to Pili's online viewing and e-commerce platforms. For example, the new Spring Special Program set to launch in 2024 will be planned and filmed from a short video perspective, aiming to ensure that Pili remains omnipresent in the ever-evolving media viewing habits.

Pili is also actively promoting thematic exhibitions and pop-up stores to capitalize on the physical economy. The first pop-up store, featuring Pili IP themes, debuted in March at the Zhongli location, followed by expansion to central and southern Taiwan. In June, Pili returned to the historic city of Tainan with the **"Pili Heroes Art Tour of the Ancient Capital Special Exhibition,"** which combines the charm of Tainan's historic and culinary reputation with creative Pili-themed exhibits, including a cooking competition theme. In September, a pop-up store themed around Pili figurines was set up at Taichung's Top City, and in October, the **"Pili Art Imagination Special Exhibition"** was held at Kaohsiung's Dream Mall. This exhibition combined Pili series with the TBF

series, creating a fantastical blend of art and leisure experiences through iconic hero artwork and contemporary leisure activities. The design deviates from traditional exhibition themes, aiming to create a miniature exploratory paradise for Pili.

In terms of member management, Pili's fan clubs are actively growing, with new role-based fan clubs joining annually. Members are located in Taiwan, Mainland China, Japan, South Korea, Europe, North America, Malaysia, Singapore, and other countries. Additionally, Pili continues to promote the **"FAN Goodies"** APP, which is regularly optimized in terms of interface, fan interaction, and reward feedback. For the first time, the app also integrates with convenience store DVD coffee redemption activities, making it not only a medium for fan rewards but also a platform for related physical events, enhancing the connection between the official team and fans. In addition to the ongoing Pili-themed events, Pili is also actively exploring unlimited possibilities for IP monetization globally.

Regarding product licensing, in 2023, Pili collaborated on product lines and advertising endorsements across industries such as coffee, food, ceramics, and electronics. The board game **"Pili: Enter the Martial Arts World,"** previously launched with Mizuho Workshop, was also released in English and ranked in the TOP 10 games worth playing in Germany. This year, Pili's cute new IP, **"PiliGili,"** was introduced in collaborative efforts with other brands, including the adorable PiliGili-themed rice cake gift box and the Napoli PiliGili joint event. In spatial licensing, Pili partnered for the first time with Taiwan's highest-standard anime-themed restaurant, **"KIRABASE,"** to launch the 2.5-month **"PILI: SOULTRA Endless Soul Theme Store,"** attracting many fans for a unique dining experience. Additionally, three Pili Super Pre-Born Road Runs were held in the north, central, and south of Taiwan, perfectly recreating classic scenes from the Pili puppet show. These events featured character photo opportunities, puppet performances, and Pili singer performances, allowing participants to immerse themselves in the world of the show. The events received wide acclaim and positive feedback!

3.Future Company Development Strategies

In terms of distribution business, the DVD distribution collaboration with 7-Eleven has officially transitioned to a single-channel exclusive model. This includes strengthening marketing support and various cooperation strategies. The first 7-ELEVEN themed store will also be launched,

deepening the collaboration between IP and convenience stores, and exploring more diverse cooperation possibilities beyond DVD products. The PILI Online Viewing platform will continue to advance towards providing a user-friendly audiovisual entertainment interaction service platform. With the established viewing experience and member services, future focus will be on leveraging various exposure and cooperation opportunities to attract more potential drama fans to the platform. Additionally, the interaction and integration between PILI DVDs and online viewing will be an active development direction.

In product operations, key representative items such as large puppets and puppet weapons will see increased delivery capacity and pre-order quantities, emphasizing their uniqueness and collectible value. Beyond the current 3D series, new product lines will include designer collaboration PVC figures and hero legend figures similar to GK models. A new adorable IP, PILIGILI, will also be launched with related products (e.g., cushions, coasters, mats, wet wipes, tissue boxes). To expand into other markets, new products related to the PILIGILI Hanahuda IP will be introduced to attract audiences who appreciate Japanese-style products.

In physical events, the company will actively promote offline activities combined with community resources and online events. This involves maximizing fan engagement and promoting IP through collaboration with major shopping centers and malls. The company will also monitor government subsidies to leverage market resources and create more possibilities with technology and related techniques.

For membership business, the FAN Good Deal APP system will continue to be developed, integrating consumer data from the IT department with lifestyle and entertainment app development. This will offer a comprehensive range of marketing services, including member centers, ticket redemption, brand marketing, and project activities. The app will also connect with the group's VPS and POS systems to provide benefits and ticket redemption functionalities. In addition to member service feedback, the app will closely integrate with physical event benefits to enhance fan engagement and create a platform for close interaction between the official entity and fans.

In licensing business development, the focus will be on expanding the licensing market and generating revenue. This includes engaging in business negotiations and promotions related to the company's works. Beyond the PILI IP, the company will also engage in diverse IP negotiations and

operations, focusing on IP monetization and comprehensive management of various IP businesses.

In community services, the company will update and align social media platforms with current trends and fan groups. This includes official websites and communities for PILI (FB, YouTube, IG, Weibo, Twitter), Dongli Swordplay (FB, IG), PILI Hero War Chronicles (FB, FB Groups), and PILIGILI (FB, IG). The company will also actively promote short video projects, including TIKTOK and YT Shorts, to showcase IP charm on different platforms and continue engaging online communities.

PILI Online Viewing is a platform offering friendly audiovisual entertainment and interactive services. In addition to existing DVD viewing habits, future plans include collaboration with Gash Mall and MyCard to integrate marketing resources for maximum effectiveness. Online exhibition activities will be added to provide more diverse content experiences for subscribers. The goal is to create an exclusive platform for Chinese-language glove puppetry and develop fan economics through digital services. Future objectives include converting platform traffic into usable resources, developing new interactive content, and expanding into advertising businesses. In addition to glove puppetry content, the platform will gradually add other cultural creative content, such as puppet shows, animations, games, and exhibitions, to become a diverse multimedia interactive service platform and continue generating digital revenue.

Through the comprehensive integration of group resources, the company will focus on promoting internationalization and daily life integration. For internationalization, content will be planned to suit international audiences, with multilingual translations for content, subtitles, and descriptions to provide diverse channels for international audiences to understand PILI. For daily life integration, the company will continue to develop cultural tourism and collaborate with universities on general education courses and industry-academic cooperation to give young students a deeper understanding of the glove puppetry industry.

At the same time, results and data will be fed back to the content production end to align with market demands, enhance content influence, and position puppet animations as a media platform. By integrating glove puppetry content, the company aims to break barriers and subtly incorporate glove puppetry into modern life. The company also hopes to enhance public understanding of glove puppetry through social welfare activities, such as caring for children in remote areas, elderly care, and minority group support, thereby strengthening the connection between glove puppetry and people.

4.Impact of External Competitive Environment, Regulatory Environment, and Overall Business Environment

Our company has established strong and positive relationships with consumers and fans through our rich and diverse content and comprehensive channel services. In the face of rapid global economic changes and intensified industry competition, we are dedicated to closely monitoring market trends and consumer needs, while continually investing in innovation and development of new products.

Taiwan, as one of the few countries that successfully controlled the spread of the pandemic in its early stages, saw its film industry perform better than most countries during 2020. However, the total box office revenue still suffered a significant decline, falling to \$154 million. In 2021, the severe local outbreak led to a semi-lockdown starting from May, during which all cinemas across Taiwan were temporarily closed, significantly impacting the number of moviegoers.

The online streaming service sector faces several external challenges. The rapid growth of OTT (Over-The-Top) services has increased competition for existing users' attention and entertainment budgets, leading to a crowding out effect. Additionally, the government has banned Chinese OTT service providers from operating in Taiwan. Historically, Chinese companies have entered the Taiwanese market through local agents, but starting September 2020, the government officially prohibited Chinese platforms such as iQIYI and Tencent's WeTV from operating in Taiwan, and amended laws to prevent local partners from providing these services. The National Communications Commission (NCC) has proposed the "Internet Audio-Visual Services Management Act," which is currently under legislative review.

Given these domestic and international environmental factors, our group's future advertising business focus will shift towards integrating the influence of traditional and new media, while also enhancing digital new media advertising and developing other revenue models, such as virtual idol endorsements, influencer talent management, and online promotions. This integrated approach aims to generate traffic and create a positive feedback loop.

Looking ahead, our company will continue to uphold the principle of integrity in our operations,

implement governance regulations, and strive for innovation and transformation. By leveraging differentiated competitive advantages, we aim to create greater value.

Best Wishes to All

Wishing you good health and all the best in everything.

Sincerely,

PILI International Multimedia Co., Ltd.



Chairman: Wen-chang Huang

