

Letter to Shareholders

Dear Shareholders:

We would like to express our utmost appreciation for shareholders' support to the Company in the last year. 2020 had been a turbulent year for the audiovisual industry, as the pandemic spread at a rate beyond anyone's control and drastically changed people's lifestyles and leisure preferences around the world. This unexpected crisis also pitted us directly against the challenges of online technologies. The Company is dedicated to creating IPs that have the potential to produce ongoing values, and adopts a big data mindset to forecast prospects of the target market. We strive to bring depth and culture into our IPs, and take progressive steps toward expanding our presence in the entertainment business on a "foundational, multinational, and global" scale. Through these IPs, we hope to create a cycle of positivity and strengthen people's identification with the local culture, while at the same time increase product appeal for additional commercial values. In addition to improving corporate governance, expanding business operations, maximizing shareholder value, and fulfilling duties as a corporate citizen, the Company also began preparation of corporate social responsibility report, and was ranked top 20% among TPEX-listed companies in Corporate Governance Evaluation for another year.

I. 2019 performance report

Consolidated operating revenue in 2018 was NT\$594,709,000, Slight decline of 10.67% from NT\$665,769,000 of the previous year. Gross profit was NT\$185,592,000, a slight decrease of around 43.06% from NT\$325,934,000 of the previous year. Net loss after tax was NT\$60,806,000, representing a significant decline of 159.69% from NT\$101,875,000 of the previous year. Losses per share is reported at NT\$ -1.16. 2019 consolidated operating results of the Company are as follows: (I) Business plan outcomes

Unit: NT\$1,000

| Item | 2020 | | 2019 | | Difference | Percentage of Increase (Decrease) |
|-----------------------|---------|-----|---------|-----|------------|-----------------------------------|
| | Amount | % | Amount | % | | |
| Net Operating Revenue | 464,581 | 100 | 594,709 | 100 | (130,128) | (21.88) |

| | | | | | | |
|--|-----------|------|----------|------|-----------|----------|
| Operating Cost | 337,177 | 73 | 409,117 | 69 | (71,940) | (17.58) |
| Gross Profit | 127,404 | 27 | 185,592 | 31 | (58,188) | (31.35) |
| Operating Expenses | 270,565 | 58 | 263,204 | 44 | 7,361 | 2.80 |
| Operating Profit | (143,161) | (31) | (77,612) | (13) | (65,549) | 84.46 |
| Non-Operating Incomes & Expenses | (5,190) | (1) | 14,624 | 3 | (19,814) | (135.49) |
| Net Profit Before Tax | (148,351) | (32) | (62,988) | (10) | (85,363) | 135.52 |
| Net Profit After Tax | (148,089) | (32) | (60,806) | (10) | (87,283) | 143.54 |
| Net Earnings Per Share (in dollars) | (2.89) | | (1.16) | | | |

(II) Analysis of Revenues, Expenses and Profitability

| Item | | 2020 | 2019 |
|---------------------|---|---------|---------|
| Financial Structure | Debt-Asset Ratio (%) | 15.09 | 14.79 |
| | Ratio of Long-Term Capital to Property, Plant and Equipment (%) | 666.31 | 657.56 |
| Solvency | Current Ratio (%) | 795.26 | 757.95 |
| | Quick Ratio (%) | 617.01 | 615.43 |
| | Interest Coverage Ratio (Multiple) | (62.29) | (75.16) |
| Profitability | Return on Assets (%) | (8.58) | (3.20) |
| | Return on Equity (%) | (10.21) | (3.79) |
| | Ratio of Income Before Tax to Paid-In Capital (%) | (28.91) | (12.28) |
| | Profit Margin (%) | (31.88) | (10.22) |
| | Earnings per Share (NTD) | (2.89) | (1.16) |

II. Summary of 2019 Business Plan

In 2020, the Company was able to grow its licensing business and broaden awareness for its IPs despite the worldwide spread of COVID-19. In collaboration with Grace Optical, Taiwan's No. 1 spectacles chain, Pili participated in the launch of a co-branded lineup featuring "Pili theme with Japan-made parts," and took part in Grace Optical's celebration for its 80th anniversary. Using Su Huan-chen, the most popular character of the Pili universe, as the endorser, the Company produced fun advertisements, offered limited-time concessions nationwide, licensed store

decorations, and applied a multitude of business tactics to help raise awareness for the campaign.

The Company also licensed IP to professional baseball team - CTBC Brothers during the year, and organized a themed event called “Pili Brothers” featuring not only the appearance of Pili characters, but also a wide range of co-branded merchandises that sold out on the day of the event. Interactive displays of Pili heroes were set up throughout the stadium for photo-taking, and the narrator of Pili shows was present at the game to announce the roster using the show’s distinctive tone, making it a wonderful day for fans of all ages and groups. Pili Brothers generated excellent ticket sales and became one of the classic success stories in the franchise’s licensing business to the sports industry.

At the end of the year, the Company held “Pili Heroes Universe Exhibition” at Dream Mall, Kaohsiung, where it showcased the rich and diverse collection of IPs under the Pili franchise in an informative yet entertaining manner. The exhibition shifted its emphasis back to the puppets, and through different display, posing, styling, and design of Pili heroes, visitors were demonstrated how show creators bring souls into the puppets. Meanwhile, photo zones were set up for fans to capture and share their experience. The IPs put on display were successful at attracting nearly 200,000 visits to the exhibition.

In terms of social networking, the Company prioritized its efforts toward setting up a YouTube channel and a membership system, offering paid services and customization to satisfy hardcore fans while maximizing use of available materials for additional income through YouTube. The Company also began building its ecosystem and fanbase on Instagram (IG), and made its first attempt collaborating with other brands and influencers on IG to increase exposure of the Pili brand. As for Facebook (FB), the Company has made several adjustments and optimizations to the posted contents, focusing primarily on issues that are current, compassionate, and relevant to the mass public for higher interactions. Fans are also given the freedom to share posts, which has the potential to reach more hidden fans.

III. Future Development Strategy

Apart from continued consolidation and development in the Taiwan market, Pili is also focusing on new markets in Japan. In Taiwan, the Company will continue releasing DVDs through convenience stores while at the same time maintain its new social networking and audiovisual

entertainment platform - the PILI App. Launched in April 2020, the platform is used mainly to stream digital contents relating to puppet shows, including original Pili episodes and music, and contents produced by new-found puppet troupes in Taiwan. In addition to adopting new video compression, content delivery network (CDN), stream diversion, video storage, and encryption technologies for improved streaming quality, the platform will also place emphasis on users' interactions while viewing, and introduce functions such as: interactive subtitle, comment, and forum so that users can become more engaged and attached to the platform, thereby create advantages that differentiate it from other streaming platforms.

As for the Japanese market, Pili continues to promote awareness for “Thunderbolt Fantasy: Sword Seekers” and grow fan base among locals. The Company is enthusiastic about expanding the influence of the IP, and released the third season of the show in April 2021 simultaneously on six major platforms, including: CATCHPLAY+, Friday, myVideo, MOD, HamiVideo, and the Pili online platform. The premiere has once again attracted the audience's attention, and the Company expects to release subsequent shows at a steady pace, taking progressive steps to expand into the global animations market after securing its presence in Japan.

With respect to licensing, the Company aims to expand the number of markets licensed for increased revenues. As new productions are released, the Company will focus not only on the promotion of new IP, but also explore ways to capitalize new IP for business opportunities. In terms of marketing campaign, the Company will be actively involved in major government events such as YICFFF and take advantage of available subsidies while integrating resources from a variety of sources to maximize revenues and value of the Pili brand.

As for merchandise, the Company will focus on improving production, marketing, and delivery of two main merchandise categories, namely puppets and JP dolls. In addition to existing merchandises such as JP dolls and 3D Creative Figure Series, the Company will also be introducing new merchandises to the portfolio. These merchandises will be distributed through a multitude of channels such as: Recycle, JollyBuy, Dokii etc. for broader reach and improved brand visibility.

The Company operates [Pili Store], a proprietary e-commerce platform that not only sells merchandises under its own IP, but also merchandises of other animation IPs as well. An

“Animation Section” was created in 2021 to provide consignment sale service as a means to expand consumer diversity. In 2021, the Company will continue cooperating with major distributors such as Muse, Medialink, Mighty Media..., and expects to accumulate a total of 50 animation IPs and have a dedicated fan club for brand promotion by the third quarter. In the 4th quarter, the Company plans to create a separate e-commerce platform for animations, so that the Pili IP and animation IPs can be run separately yet concurrently to reach new customers and generate revenues.

The Company plans to introduce a themed beverage and food store in 2021 featuring the many IPs it has available, and will attempt to differentiate from the existing restaurant industry by leveraging the influence of live streamers and key opinion leaders. The Company looks forward to expanding the store into a franchise system, and growing the restaurant business to a scale that not only generates revenues, but also reaches potential audience and contributes to the value of the brand.

Our future social network marketing efforts will focus more on video productions, using global social networking platforms including Facebook, IG, and Youtube to interact with the audience and in doing so bring values to the Pili brand. These social networking platforms also generate new revenues in the forms of advertisement and licensing, which contribute to the long tail effect of video productions. Meanwhile, the audience is being referred to online merchants, where they may contribute to the sale of merchandises. Furthermore, the Company plans to associate itself with interest groups that are unrelated to the Pili brand, such as: Taiwanese music shows and ACG shows, and broaden exposure to audiences of different audiovisual genres.

IV. Impact from external competition, regulatory environment, and the overall economic climate

The Company has established a solid and positive relationship with consumers and fans through our rich content and extensive channel services. The volatile global economic climate contributes to intensifying competition in the industry. In response, we will not only continue to follow market trends and meet consumer demands even more closely but also continue to invest in the creation and development of new products.

According to the “Global Entertainment & Media Outlook 2020-2024” published by PwC Taiwan, the size of Taiwan’s entertainment and media (E&M) market reached US\$15.2 billion in

2019, up 0.4% year-on-year primarily due to strong growth from sub-industries including OTT, video games, and music, and much of it had to do with the government's persistent efforts at promoting and nurturing the local culture and creativity industry, and the use of conventional media such as newspapers, magazines, books, and TV. It was evident that conventional media still played an important role in the E&M industry. However, outbreak of COVID-19 in 2020 hastened the growth of OTT service in Taiwan. Revenues from OTT services in Taiwan have been estimated to reach US\$745 million in 2020, representing a growth of 26% and surpassing the US\$540 million generated from conventional TV service for the first time, which signified Taiwan's transformation towards the streaming culture. Although demand for media content increased significantly, businesses have become more conservative with their marketing budgets, and are favoring "precision marketing" and "guided purchase" (such as social media campaign, use of MarTech, endorsement from influencers/live streamers etc.) as the preferred ways to advertise. In the future, the group will focus its advertising efforts not only on the combined use of new and old media, but also on the exploration of new forms of advertising and alternative profit models such as: endorsement through virtual idol, talent agency for influencers, online retail promotion etc. By capitalizing the synergies of various possibilities, the Company hopes to create a positive cycle where viewership can be turned into revenues to feed new viewership.

Online streaming service currently faces a number of external challenges; aside from the uprise of OTT media that compete for the audience's time and budget, video piracy presents even a greater problem, and despite having assigned IP maintenance personnel to prevent and handle offences, it requires efforts from both the public and the private sector in order to promote users' copyright awareness, combat offenders, and disrupt circulation of pirated software.

In the future, the Company will continue to uphold its philosophy of ethical management by implementing corporate governance best practices. We will also continue to innovate and leverage the competitive edge of market differentiation to create more value for shareholders.

Best

regards

Pili International Multimedia Co., Ltd.

Chairman: Wen-Chang Huang