

One. Letters to Shareholders

Dear Shareholders:

We'd like to appreciate the full support from each shareholder in the past years. Pili International Multimedia Co., Ltd. started from the TV puppetry drama, and through the operations of many years, it has become an entertainment enterprise with omni-media. We insist the spirit of “no ending for legacy, no limit for innovation,” continue the mindset of originality, and exert the core values of “culture, aesthetics, innovation, and harmony,” to operate robustly, practically, and sustainably. Since the public offering at TPEX in October 2014, Pili has become the first representative of the TPEX-listed cultural creativity company. Once entering the capital market officially, the Company has continuously enhanced the quality of corporate governance, expanded the operation scales, and improved the shareholders' equity. Meanwhile, the Company fulfills the responsibility as a corporate citizen, prepares the corporate sustainable management report, and continuously wins the special honor as the top 20% of the TPEX listed company in the Corporate Governance Evaluation. For the expectations to the future, with the cultural legacy, innovation, and the philosophy of sustainable management, the Company will promote the puppetry culture internationally, and further create the booms of original oriental fantasy, and build the dream kingdom of a “FarEastern Disney.”

I. 2021 performance report

Consolidated operating revenue in 2021 was NT\$428,031 thousand, a drop of around 7.87% from NT\$464,581 thousand of the previous year. Gross profit was NT\$18,604 thousand, a decrease of around 85.40% from NT\$127,404 thousand of the previous year. Net loss after tax was NT\$238,655 thousand, a drastic decline of around 61.16% from net loss after tax for NT\$148,089 thousand of the previous year. Loss per share was NT\$4.60. 2021 consolidated operating results of the Company are as follows:

(I) Business plan outcomes

Item	2021		2020		Difference	Percentage of Increase (Decrease) %
	Amount	%	Amount	%		
Net Operating Revenue	428,031	100	464,581	100	(36,550)	(7.87)
Operating Cost	409,427	96	337,177	73	72,250	21.43
Gross Profit	18,604	4	127,404	27	(108,800)	(85.40)
Operating Expenses	254,229	59	270,565	58	(16,336)	(6.04)

Operating Losses	235,625	55	143,161	31	92,464	64.59
Non-Operating Incomes & Expenses	(3,037)	(1)	(5,190)	(1)	2,153	(41.48)
Net Loss Before Tax	238,662	56	148,351	32	90,311	60.88
Net Loss After Tax	238,655	56	148,089	32	90,566	61.16
Loss Per Share After Tax	(4.60)		(2.89)			

(II) Analysis of Revenues, Expenses and Profitability

Item		2021	2020
Financial Structure	Debt-Asset Ratio (%)	37.22	15.09
	Ratio of Long-Term Capital to Property, Plant and Equipment (%)	227.29	666.31
Solvency	Current Ratio (%)	444.85	795.26
	Quick Ratio (%)	362.46	617.07
	Interest Coverage Ratio (Multiple)	(42.13)	(62.29)
Profitability	Return on Assets (%)	(13.65)	(8.58)
	Return on Equity (%)	(19.02)	(10.21)
	Ratio of Income Before Tax to Paid-In Capital (%)	(46.51)	(28.91)
	Profit Margin (%)	(55.76)	(31.88)
	Earnings Per Share (NT\$)	(4.60)	(2.89)

II. Summary of 2021 Business Plan

In 2021, the Company was able to grow its licensing business and broaden awareness for its IPs despite the worldwide spread of COVID-19, and Taiwan was under the Level 3 Alert of pandemic. In the Cultural Expo 2021, the first collaboration images between Pili and Sanrio was disclosed for the first time. Led by the No. 1 Hero of Pili, Su Huan-chen, and the representative character of Sanrio, Hello Kitty, the super-cute images were launched. Partnering with Family Mart to launch the thematic event of purchase with point-collection “Cute Pili Are All in Family Mart.” Various licensed merchandises, such as scent diffusion stone and designed USB flash memories were launched simultaneously. The super cute storm of Pili x Sanrio overwhelmed Taiwan.

For the merchandise license, the Company worked with the in-house brand of Taiwan Shang-How Biotech, Tian Pan, to launch the collaborative masks of the Company’s representative hero, Su Huan-chen, and characters from Thunderbolt Fantasy, to create the license profit by catching

the business opportunities from the pandemic. In the same year, the Company also had some amazing collaborations with many famous wineries. Balvenie launched “One Heart for One Art: Image Project of Master’s Heart and Art,” centered at the achievement of whisky art with the focused mind. The president of Pili, Liang-Hsun Huang, was invited to shoot the endorsement film in the first episode. The images with extraordinary texture, bring the audience to see how Pili gathers the efforts from everyone, to build the dream and make it come true, and opens a brand new future for the puppetry. In addition, working with Da jue Cultural and Creative, to launch a three-whisky series featured the works of the national treasury, Mr. Chen Uen, “Manga Great Pili.” The series included Su Huan-chen, Crazy Sword in Chaos, and Proud Smile in the Mortal World. The series had extremely high value for collection, and were sold out within a week upon launch. From images to merchandises, the Company has flourished in the cross-industry collaborations with its focused cultivation for 30 years, and created the new classics for the license business.

For the performance and exhibition activities, to continue the good performance of the well-received Pili IP: Special Exhibition of the World of Hero in the previous year, in August 2021, in Taipei Station Store of Shinko Mitsukoshi Department Store, the “Pili IP: Special Exhibition of the World of Hero Part. 2” was held. The zone themes were divided by the palette of the puppet styles, and the colorfulness of glove puppets was presented with the direct vision. In addition, the common display of one showcase one puppet was not adopted, but the double level irregular polygon showcases were adopted for the best view angles of audience. The exhibition is also the demonstration field for the first presentation of the images collaborated with Sanrio, with numerous Pili x Sanrio merchandises, and created a fever of discussions and headlines.

In October of the same year, the “Games of Pili IP: Lord of Heroes Special Exhibition” was held in Dream Mall in Kaohsiung. For the first time, the exhibition zones were divided by the martial arts of each character, such as sword, double-edged sword, spear, or bow, rather than by the relationship, organizations or parties of the characters, to create a martial art competition belonging to Pili Heroes only without the limit of era, to open the unlimited imagination of the audience. In the same exhibition, the annual collaborative images with “Shiba Says” were launched, too, and the eyes of the children-parent group were caught, to demonstrate the diversity and potential of the Pili’s images.

Regarding the channels, the direct selling shop was relocated to Dazhi ATT. Working with the New Entertainment Animation and Manga Business Circle Alliance led by Muse, the shops occupy

the ground floor of Dazhi ATT. Through the tenants of animation and manga IPs and two customer-gather events every months, a one-stop shopping experience is created, to bring the Pili Puppetry into the 2-D animation and manga market.

For the expansion of food and beverage business, the hand-shook tea beverage store “ON DAY” and the bistro “Cosmic Bistro” were established officially during the year, featuring brand new and various IP-themed food and beverage business with an innovative mindset, 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.

The new social networking and audiovisual entertainment platform of Pili - the PILI Online Viewing was 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 subtitles, comments, and forums so that users can become more engaged and attached to the platform, to differentiate it from other streaming platforms, for more advantages and revenues.

III. Future Development Strategy

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. Other than the Pili IPs, the domestic diverse IP negotiations and management are also the key tasks, the core

will be the monetization of IP, and to operate the diverse IP business in a full-fledged manner. Meanwhile, in 2022, the animation and manga project would be activated officially. The first event would be themed with the famous IP “Naruto,” seeking to create the diverse capacity of IP revenue generation.

For the merchandise operations, the focus was on the two major representative key merchandises: large puppet and weapons for puppets. Other than increasing the capacity of delivery and pre-purchase quantity, the uniqueness and collectable values are sought to be underlined. For the dolls, other than the current 3D Fierce Fights in the World, it has been planned the PVC dolls collaborated with designers, and the dolls of quasi-garage kit (GK) from Legend of Heroes, to expand to different product lines. In addition, series collaborative merchandises were developed for licensed products, and the collaborations with Sanrio and Shiba Says’ IPs, to expand the markets other than the fans of Pili. Furthermore, other than the production of physical products, NFT digital products have been launched to cope with the trend, which continue to hit on the shelves of veve and Jcard platforms, resulting in a wave of flash sales as soon as they were launched. Not only the revenue was generated, but also the headlines for publicity were created, and even the Pili IPs were promoted to the international cryptocurrency market.

In terms of membership business, to integrate the users of the Group's services, benefits are provided through the membership system with annual consumption accumulation, to collect and profile the consumers for the precise marketing, and further to guide and support each other, for expanding the business landscape. In January 2022, the FAN Good Deal App system was launched, with the consumption data collected by the Information and Technology Department underlain, and combined with the development of life entertainment app, various marketing services are improved. It will provide complete modules such as membership center, ticket exchange, brand marketing, project activities, among other activities, and link to the Group's VPS, POS and other mechanisms, to provide benefits and ticket exchange, disbursement, and other functions.

The user-friendly PILI Online View that the audience may use to watch their favorite shows anywhere they go. This video streaming service complements DVDs and gives hardcore fans an online alternative to watching shows. This was exactly the purpose for which the social networking and audiovisual entertainment platform of Pili OTT was planned and executed in 2019, and the Company has the ambition to expand it further to reach all who are interested in Chinese puppetry in

the future. For a monthly subscription, users will have unlimited access to Pili shows as well as community and music services all using the PILI Online View. Meanwhile, other puppet show producers are being invited to upload contents onto the PILI Online View, thereby making it an exclusive platform for Chinese puppetry where fan base can be shared to grow this traditional art. The service not only gives fans access to a diverse range of puppet shows, but also provides a performance stage for new-found puppet troupes in Taiwan. The convenience of being able to watch shows online anytime, anywhere inspires better quality contents and attracts new fans to create an ecosystem that supports the growth of puppetry. With a well-established fan base, we hope to introduce quality contents from other regions and countries to make PILI App a multinational and culturally diverse interactive platform for puppetry productions and entertainment. Other cultural and entertainment contents of various genres such as: puppetry, animation, comic, and game will also be added onto the online platform over time, and we expect this expansion to not only bring revenues for the group's video productions, but also increase platform users to the point where interactive contents and advertising services become commercially viable.

Through the overall integration of the Group's resources, the Company will strive to promote the internationalization of Company and incorporation into daily life. In terms of internationalization, the content that suits the tastes of international audiences are planned, with continuous issuance of NFTs in the international market, while providing international audiences with multiple channels to understand Pili through multilingual translation of content, subtitles, and introductions. In terms of incorporation into daily life, the cultural tourism has been developed continuously, and through general education courses and industry-academy collaboration with colleges, young students have the opportunity to obtain an in-depth understanding of the puppetry industry.

Meanwhile, the results and data are fed back to the content side, to assist the production of the content side to meet the market demand, enhance the influence of the content, and make the puppet animation a media platform; By positioning itself from the perspective of entertainment content, and then incorporating the content of puppet show into it, the puppet shows are able to break through the limitation and get incorporated into the modern life subtly.

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.

In 2020, under the impact from the COVID-19 pandemic, the global entertainment and media (E&M) industry suffered the greatest revenue decline in 22 years, the box office of movies in particular. The E&M market size of Taiwan in 2020 was about USD15.5 billion, a 1.7% decrease comparing to 2019. In addition, due the lower base in 2021, it was expected that the revenue of the E&M industry in Taiwan would be growing 5.0% annually, and the production value would be USD16.3 billion. Meanwhile, the digital entertainment and media (E&M) industry has become a beneficiary of the impact of the pandemic. In 2020, Taiwan's OTT audio-visual revenue increased by 16.2% year-on-year, and video game revenue also increased by 10.3%. In May 2021, the local outbreak of the COVID-19 pandemic in Taiwan had a severe impact on the service industry, including the entertainment and media(E&M) industry. The harm resulted from the pandemic on the entertainment and media(E&M) industry of Taiwan in 2021 might be more significant than in 2020.

Taiwan has been one of the few countries that successfully controlled the spread of the pandemic in the early stages. Although during 2020, the film industry performed better than most countries, the total box office revenue of movies was still almost halved inevitably, falling to US\$154 million. At the middle of 2021, the severe outbreak of the local pandemic has led Taiwan to enter a semi-lockdown status since May. For the first time, all movie theaters in Taiwan were ordered to temporarily close, and the number of moviegoers was also impacted.

The current external challenges faced by online audio-visual services, other than the vigorous development of OTT audio-visual services grabbing the viewing market share of existing users (time-consuming exclusion) and entertainment spending (audio-visual entertainment budget exclusion), the government ordered a ban on Chinese-funded OTT service providers to operate in Taiwan. However, Chinese companies have adopted a roundabout manner to enter the Taiwan market through local agents in the past. Therefore, in September 2020, the government officially banned Chinese OTT platform operators such as iQiyi and Tencent WeTV from operating in Taiwan, and amended the laws to prohibit local partners from providing related services. The National Communication Commission has proposed the draft of the “Internet Audiovisual Services Act” and it

is now under the review of Legislative Yuan.

Combining the macro factors in-home and abroad, 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.

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.



Wen-chang Huang, Chairperson

