

Letter to Shareholders

Dear Shareholders:

Thanks to our shareholders' full support over the past year. Pili is an original story of Taiwan, and also a brand with original intellectual property (IP) originating in Taiwan ; driven by the spirit of "heritage and creativity without boundaries," Pili International continues to live up to its values of "culture, aesthetics, innovation and harmony" and bring original ideas to its shows. Pili International has made continuous efforts to improve corporate governance, expand business operations, maximize shareholder value and fulfill duties as a corporate citizen. The Company also made an attempt to prepare a corporate social responsibility report, and was ranked top 20% among TPEX-listed companies in Corporate Governance Evaluation for another year. In the future, Pili International "taking deeper cultural roots and going high-tech," Pili is increasing its presence in the world.

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	2019		2018		Difference	Percentage of Increase (Decrease)
	Amount	%	Amount	%		
Net Operating Revenue	594,709	100	665,769	100	(71,060)	(10.67)
Operating Cost	409,117	69	339,835	51	69,282	20.39
Gross Profit	185,592	31	325,934	49	(140,342)	(43.06)
Operating Expenses	263,204	44	281,782	42	(18,578)	(6.59)
Operating Profit	(77,612)	(13)	44,152	7	(121,764)	(275.78)

Non-Operating Incomes & Expenses	14,624	3	55,347	8	(40,723)	(73.58)
Net Profit Before Tax	(62,988)	(10)	99,499	15	(162,487)	(163.31)
Net Profit After Tax	(60,806)	(10)	101,875	15	(162,681)	(159.69)
Net Earnings Per Share (in dollars)	(1.16)		1.95			

(II) Analysis of Revenues, Expenses and Profitability

Item		2019	2018
Financial Structure	Debt-Asset Ratio (%)	14.79	12.34
	Ratio of Long-Term Capital to Property, Plant and Equipment (%)	657.56	711.34
Solvency	Current Ratio (%)	757.95	816.74
	Quick Ratio (%)	615.43	670.50
	Interest Coverage Ratio (Multiple)	(75.16)	37.91
Profitability	Return on Assets (%)	(3.20)	5.08
	Return on Equity (%)	(3.79)	6.18
	Ratio of Income Before Tax to Paid-In Capital (%)	(12.28)	18.91
	Profit Margin (%)	(10.22)	15.30
	Earnings per Share (NTD)	(1.16)	1.95

II. Summary of 2019 Business Plan

In 2019, continuing after the 30th anniversary of the debut of Su Huan-Jen, the most popular character in the Pili series, the Company organized an exhibition called Pili Fantasy World of Puppet Art at Pier-2 Art Center, Kaohsiung, using virtual reality technologies to present traditional puppet arts in a whole new light. A dedicated section was created for Thunderbolt Fantasy this time around, and further optimizations and adjustments were made to the exhibition area which, combined with the ongoing Kaohsiung Lantern Festival, attracted visitors and increased ticket sales as well as merchandise revenues for the Kaohsiung stop. This was also the first year that Company participated in the world-renowned "Yilan International Children's Folklore and Folkgame Festival" (YICFFF), during which it set up a "Pili Fantasy Hall" and presented Taiwan's century-old puppetry in conjunction with interactive technologies. This has been part of the

Company's attempt to promote the Pili IP in international events for revenues and unlimited brand potentials. Furthermore, this year marked the grand opening of "Pili Yilan Store," a 3-storey complex located at the National Center for Traditional Arts and the Company's first branch in Taiwan to feature an OUTLET section for nostalgic and classic merchandises. The store primarily focuses on the presentation of the Pili brand, and is laid out in the form of an exhibition to enhance visitors' experience, whereas an OUTLET section is created for diversity and revenues.

"Thunderbolt Fantasy - Songs of Xiyou" premiered in Taiwan and Japan, and once again it united the fans and took success of the Thunderbolt Fantasy IP to a whole new level. The film received overwhelming positive response after release; many viewers found it more entertaining than the previous production due to the exciting plot, the fast tempo, the well-choreographed fight scene, and the satisfying ending. The film made NT\$1.6 million in sales nationwide in its first week, which not only strengthened the Thunderbolt Fantasy IP but also paved way for the release of "Thunderbolt Fantasy 3" scheduled in 2020.

The Company make a major breakthrough this year in terms of digital publication, with the release of its latest show - "Pili Xia Feng." In partnership with FriDay, a video streaming platform, the Company releases the latest episodes of the Pili series exclusively online, thereby allowing fans to binge-watch their favorite shows through OTT subscription. This change of publication marks a significant milestone for the Pili franchise, and is a challenge that the company must adapt to given the change in audience's viewing habits.

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 explore new models of paid television, and the collaboration with FriDay has been the Company's attempt to explore and grow the realm of digital publication. For the benefit of Pili fans, the Company has made its precious IP available online using advanced digital technology, and created a user-friendly PILI App 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 streaming App 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 App. Meanwhile, other puppet show producers are being invited to upload contents onto the PILI App, 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.

As for the Japanese market, Pili continues to keep “Thunderbolt Fantasy: Sword Seekers” a hot topic among locals and extend the fan effect arising from it. The Company is enthusiastic about extending the IP influence of the series, and expects to follow up on its success with the release of the 3rd season in 2020, while other new productions will also be released at a steady pace. The aim is to gain a foothold in anime markets in Japan and elsewhere in the world.

With respect to licensing, the Company will be negotiating with partners from different industries to license games, merchandises, and video productions 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 exploit new IP for business opportunities. With the release of new Thunderbolt Fantasy game in the 4th quarter of 2020, the Company expects to see a significant increase in licensing revenues. 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. Additional resources will be invested into expanding the merchandise supply network this year to increase product diversity and brand visibility. Through integration of online and offline database, the group aims to adopt a precision merchandise packaging approach that increases revenues. Meanwhile, existing channels such as e-commerce and digital TV platforms will be incorporated into our diversified marketing strategies (featuring live stream, unboxing, video, two-way interactions etc.) to further enhance brand exposure and increase revenues.

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. Furthermore, referral of visitors to the e-commerce platform would also increase merchandise sale.

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.

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.

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