



eMemory Technology Inc. Reports Results for the First Quarter 2016

Hsinchu, Taiwan, 9th May, 2016 – eMemory Technology Inc. announces its financial results for the first quarter ended 31st March 2016.

Q1 2016 –Financial Summary (Unit: NT\$ thousands)	Q1 2016	Q4 2015	% Change	Q1 2015	% Change
Net revenue	319,846	300,878	6.3%	258,602	23.7%
Gross margin	100%	100%	-	100%	-
Operating expenses	177,088	156,216	13.4%	128,976	37.3%
Operating margin	44.6%	48.1%	-3.5ppts	50.1%	-5.5ppts
Net income	166,012	128,090	29.6%	114,423	45.1%
Net margin	51.9%	42.6%	+9.3ppts	44.2%	+7.7ppts
EPS (NT\$ per common share)	2.19	1.69	29.6%	1.51	45.0%

Q1 2016 Financial Highlights

- Revenue in Q1 2016 was up 23.7% over Q1 2015.
- Operating expenses in Q1 2016 were up 37.3% as compared to Q1 2015.
- Net income in Q1 2016 was up 45.1% as compared to Q1 2015.
- Net margin in Q1 2016 was up 7.7ppts as compared to Q1 2015.
- EPS in Q1 2016 was up 45% over the same period of last year.

Progress on key growth drivers in Q1 2016

- Growth in technology licensing
 - 13 technology licenses signed with 6 customers in Q1 2016. Within these licenses, 100 process platforms are currently being developed, which covering from 0.18um to 10nm.
- Growth in design licensing
 - 82 design licenses were sign in Q1 2016 for a broad range of applications including in DDI, PMIC, MCU, and sensor related.
 - At the end of Q1 2016, the number of cumulative design licenses signed total up to 3,243.

Outlook

As the contribution from advance DDI and Set-top Box/DTV start volume production and the license fee expected to grow due to the successful development in advance nodes and MTP technology. We expect the revenues for the full year of 2016 to remain on the growth trend.

The future outlook summarized as follow:

- License fees expected to grow due to the successful development of NeoFuse in advanced nodes, and MTP technology.
- PMIC continually expands to applications for wireless charger and fast charger related products.
- 55nm TDDI continues volume production. 40nm OLED DDI is under development at several major foundries.



- 28nm Set-top Box processor starts volume production. More customers tape out new products in Q2 of 2016.
- Fingerprint and CIS customers start volume production in Q2 of 2016.
- The qualification of 16nm FF+ was completed at end of March 2016 and 16nm FFC qualification started in Q2 of 2016.
- 10nm FF IP taped out in Q2.
- NeoPUF, new technology for security application is under development.
- Continuously tape outs on automotive applications.

Management remarks

Licensing fee increase 34.22% and royalty income increase over 20.21% year-on-year. In Q1 2016, 13 license contracts have been signed with 6 customers, and we supported 82 customer product tape-outs in design licensing.

As the applications of MCU at several foundries have gradually entered mass production, and the business model of the main foundry partner which provides green process has shifted to eMemory licensing IP cell to the foundry so that foundry can provide direct design service to customers. As the result, the new tape out number of MCU has been affected, drop 25 as compared to Q1 2015, but the royalty coming from IP cell usage continues to roll in. Even the new tape out number of MCU is lower than before, the corresponding wafer output and royalty continue to grow.

Besides that, due to the increasing penetration of 12-inch wafer technology and expansion in applications utilizing OTP/MTP solutions, we are confident that eMemory still can capture key business and will continue to see growth momentum from the new technology licenses development.

Financial review

Q1 2016 – Revenue Breakdown (Unit: NT\$ thousands)	Q1 2016	Q4 2015	% Change	Q1 2015	% Change
Licensing	85,976	69,307	24.05%	64,056	34.22%
Royalty	233,870	231,571	0.99%	194,546	20.21%
Total	319,846	300,878	6.30%	258,602	23.68%

Total revenues

Total revenues in Q1 2016 were NT\$ 319.85 million, up 23.68% versus Q1 2015.

Licensing revenues

Licensing revenues in Q1 2016 increased by 34.22% to NT\$ 85.98 million as compared to Q1 2015, representing 26.88% of Q1 revenue.

The increased in licensing revenue is subject to the achievement of projects milestone and the expansion in advance OTP/MTP solutions. Currently, We have 100 process platforms underdeveloped, including 18 in NeoBit, 40 in NeoFuse, 23 in NeoEE and 19 in NeoMTP.



Royalty revenues

Royalty revenues in Q1 2016 were up 20.21% to NT\$233.87 million as compared to Q1 2015, representing 73.12% of Q1 revenue.

Royalty revenues is 71.89% from 8-inch and 28.11% is from 12-inch wafer production in Q1 2016. Mainly comes from the applications of DDI, PMIC and consumers related IC.

Gross margin

Gross margin in Q1 2016 was 100% equal to in Q1 2015.

Operating expenses and operating margin

Operating expenses in Q1 2016 increased by 37.3% year-on-year to NT\$177.09 million.

Operating margin in Q1 2016 was 44.6%, down 5.5ppts versus Q1 2015.

The employee stock option was recognized under compensation cost in Q1 2016; therefore, the operating expenses increased by NT\$2.28 million while the operating margin was down 0.71ppts, and due to the disposal of financial assets in Q1 2016, the related cost from profit sharing to employees by non-operating income increased by NT\$7.39 million which affected the operating margin by 2.31ppts.

In 2016, the expected increase of expenses is estimated to be about 15% of 2015. Among them, 3.5% increase of employee bonus, 5% increase is from the share based employee compensation, and 1.5% increase is from the employee annual salary adjustment and 5% increase is due to investing on design and testing tool.

Earnings and income tax expense

Net income in Q1 2016 increased by 29.6% to NT\$166.01 million as compare to Q4 2015.

Income tax expense in Q1 2016 was NT\$ 19.58 million, up 15.56% from Q4 2015.

In Q1 2016, earnings per share were NT\$2.19, up 29.6% from Q4 2015.

Balance sheet

At the end of Q1 2016, cash and marketable securities totaled NT\$1,534.65 million, increased by NT\$103.21 million from Q1 2015.

Total current liabilities were NT\$248.65 million, increased by NT\$53.95 million from Q1 2015. The increase was mainly due to higher bonus provisions.

Net working capital was NT\$1,411.88 million, increased by NT\$93.12 million as compared to Q1 2015.

Cash flow and dividend

Cash generated from operating activities in Q1 2016 increased by NT\$13.48 million from Q1 2015 to NT\$134.14 million.

Net cash generated from investing activities in Q1 2016 was NT\$34.46 million, increased by



NT\$45.71 million compared to Q1 2015, primarily attributed to subsidiary company gained on disposal financial assets in Q1 2016.

At the end of Q1 2016, eMemory's cash balance was NT\$1,534.65 million, an increased by NT\$103.21 million as compared to Q1 2015.

Licensing

In Q1 2016, 13 technology licenses were signed with 6 customers. Within these licenses, we are currently developing 100 process platforms which covering from 0.18um to 10nm, reflecting the ongoing demand for eMemory's technology. These technology licenses are summarized as follows:

- Progress in advance nodes:
 - In 10nm FF process, IP was taped out in April.
 - In 14/16nm process, 3 platforms are under development. Among them, the qualification of 16nm FF+ was completed at end of March, and 16nm FFC qualification started in Q2 of 2016.
 - In 28nm process, IPs were qualified in 5 process nodes, and 9 platforms are under development.
 - In 40nm process, IPs were qualified in 2 process nodes, 3 customer tape-outs were delivered, and 6 platforms are under development.
 - In 55nm process, IPs were qualified in 11 process nodes, 3 customer tape-outs were delivered, and 22 platforms are under development.
 - In 90nm process, IPs were qualified in 5 process nodes, 1 customer tape-out was delivered, and 7 platforms are under development.
- Progress in legacy nodes:
 - 60 platforms were under development.

In Q1 2016, we supported 82 customer product tape-outs in design licensing which covering from 0.35um to 28nm. These tape-outs are 14 in LCD driver, 16 in PMIC, 12 in MCU, 31 in sensor related, and 9 in other related applications.

Due to customers pull in their tape out schedule and the business model with the main foundry partner which provides green process has changed, the new tape out number was drop in Q1 of 2016. However, with the strong demand of NeoMTP and NeoEE, we expected that the licenses fee to keep the growth momentum in the future.

Royalty

Generated from more than 3,243 design licenses, eMemory is gaining share in a broad spectrum of applications. Following are the main contributors to royalty revenue growth:

- PMIC customers continuing increase their production volume and extend to the application of wireless charger and fast charger related products.
- Advance DDI in 55nm continues to ramp up, stars to co development with major foundries in the application of 40nm OLED DDI.
- 28nm Set-top Box processor starts volume production. More customers tape out new products in Q2 of 2016.



- Fingerprint and CIS customers start volume production in Q2 of 2016. Royalty revenue expected to stay in line with the growth trend in the future.
- Continue tape outs on automotive applications.

With the existing applications start volume production and the adoption in new applications. We expect the revenues for the full year 2016 remain on the growth trend.

Employees

At 31 March 2016, eMemory had 225 full-time employees, a decrease of 1.32% as compared to Q4 2015. Among them 157 are R&D engineers.

Cautionary Statement

This report contains forward-looking statements, which are subject to risk factors associated with semiconductor and intellectual property business. It is believed that the expectations reflected in these statements are reasonable. But they may be affected by a variety of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially which include, but are not limited to: wafer price fluctuation, actual demand, rapid technology change, delays or failures of customers' tape-outs into wafer production, our ability to negotiate, monitor and enforce agreements for the determination and payment of royalties, any bug or fault in our technology which leads to significant damage to our technology and reputation, actual or potential litigation, semiconductor industry cycle and general economic conditions. Except as required by law, eMemory undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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-Financial Tables To Follow-

eMemory Technology Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2016 (Reviewed)		December 31, 2015 (Audited)		March 31, 2015 (Reviewed)		LIABILITIES AND SHAREHOLDERS' EQUITY	March 31, 2016 (Reviewed)		December 31, 2015 (Audited)		March 31, 2015 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$ 1,534,646	68	\$ 1,367,019	67	\$ 1,431,434	67	Other payables	\$ 79,361	3	\$ 80,331	4	\$ 62,845	3
Accounts receivable - net	84,934	4	55,539	3	62,464	3	Bonuses payable to employees, directors and supervisors	114,508	5	77,899	4	81,714	4
Accounts receivable - related parties	676	-	-	-	329	-	Payables on equipment	1,794	-	6,135	-	2,641	-
Other receivables	656	-	641	-	507	-	Current tax liabilities	36,494	2	15,189	1	35,691	2
Other receivables - related parties	48	-	57	-	46	-	Other current liabilities	16,496	1	20,706	1	11,816	-
Prepayments	30,074	1	11,625	1	15,514	1	Total current liabilities	248,653	11	200,260	10	194,707	9
Other current assets	9,496	-	4,372	-	3,172	-	NON-CURRENT LIABILITIES						
Total current assets	1,660,530	73	1,439,253	71	1,513,466	71	Accrued pension liabilities	17,515	1	17,591	1	14,669	1
NON-CURRENT ASSETS							Guarantee deposits received	840	-	840	-	415	-
Financial assets measured at cost - noncurrent	12,786	1	15,500	1	16,675	1	Total non-current liabilities	18,355	1	18,431	1	15,084	1
Debt investment with no active market - noncurrent	33,609	2	33,609	2	33,608	2	Total liabilities	267,008	12	218,691	11	209,791	10
Investment accounted for using equity method	11,596	-	6,645	-	12,079	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Property, plant and equipment	489,057	22	491,612	24	499,654	24	Ordinary shares	757,823	33	768,323	38	768,323	36
Intangible assets	44,190	2	42,885	2	38,340	2	Capital surplus	453,983	20	455,370	22	531,151	25
Deferred tax assets	7,426	-	5,704	-	3,781	-	Retained earnings						
Refundable deposits	265	-	265	-	1,857	-	Legal reserve	184,051	8	184,051	9	142,194	7
Total non-current assets	598,929	27	596,220	29	605,994	29	Special reserve	926	-	926	-	926	-
							Unappropriated earnings	595,668	27	476,861	23	535,824	25
							Total retained earnings	780,645	35	661,838	32	678,944	32
							Treasury shares	-	-	(68,749)	(3)	(68,749)	(3)
							Total equity	1,992,451	88	1,816,782	89	1,909,669	90
TOTAL	\$ 2,259,459	100	\$ 2,035,473	100	\$ 2,119,460	100	TOTAL	\$ 2,259,459	100	\$ 2,035,473	100	\$ 2,119,460	100

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	Three Months Ended March 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	\$319,846	100	\$258,602	100
OPERATING COSTS	-	-	-	-
GROSS PROFIT	<u>319,846</u>	<u>100</u>	<u>258,602</u>	<u>100</u>
OPERATING EXPENSES				
Selling and marketing expenses	31,392	10	17,374	7
General and administrative expenses	38,442	12	30,679	12
Research and development expenses	<u>107,254</u>	<u>33</u>	<u>80,923</u>	<u>31</u>
Total operating expenses	<u>177,088</u>	<u>55</u>	<u>128,976</u>	<u>50</u>
OPERATING INCOME	<u>142,758</u>	<u>45</u>	<u>129,626</u>	<u>50</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	4,273	1	3,931	2
Other gains and losses	40,538	13	(2,397)	(1)
Share of loss of associates	(<u>1,974</u>)	(<u>1</u>)	(<u>1,484</u>)	(<u>1</u>)
Total non-operating income and expenses	<u>42,837</u>	<u>13</u>	<u>50</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	185,595	58	129,676	50
INCOME TAX EXPENSE	<u>19,583</u>	<u>6</u>	<u>15,253</u>	<u>6</u>
NET PROFIT	<u>166,012</u>	<u>52</u>	<u>114,423</u>	<u>44</u>
TOTAL COMPREHENSIVE INCOME	<u>\$166,012</u>	<u>52</u>	<u>\$114,423</u>	<u>44</u>

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eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	Three Months Ended March 31			
	2016		2015	
	Amount	%	Amount	%
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$166,012	52	\$114,423	44
Non-controlling interests	-	-	-	-
	<u>\$166,012</u>	<u>52</u>	<u>\$114,423</u>	<u>44</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$166,012	52	\$114,423	44
Non-controlling interests	-	-	-	-
	<u>\$166,012</u>	<u>52</u>	<u>\$114,423</u>	<u>44</u>
EARNINGS PER SHARE				
Basic	<u>\$ 2.19</u>		<u>\$ 1.51</u>	
Diluted	<u>\$ 2.18</u>		<u>\$ 1.51</u>	

(Concluded)

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Ordinary Shares		Capital Surplus	Legal Reserve	Retained Earnings			Treasury Shares	Total Equity
	Shares (In Thousands)	Amount			Special Reserve	Unappropriated Earnings	Total Retained Earnings		
BALANCE, JANUARY 1, 2015	76,833	\$ 768,323	\$ 521,569	\$ 142,194	\$ 926	\$ 421,401	\$ 564,521	(\$ 68,749)	\$ 1,785,664
Change in capital surplus from investments in associates accounted for by using equity method	-	-	9,582	-	-	-	-	-	9,582
Net profit for the three months ended March 31, 2015	-	-	-	-	-	114,423	114,423	-	114,423
Total comprehensive income for the three months ended March 31, 2015	-	-	-	-	-	114,423	114,423	-	114,423
BALANCE, MARCH 31, 2015	<u>76,833</u>	<u>\$ 768,323</u>	<u>\$ 531,151</u>	<u>\$ 142,194</u>	<u>\$ 926</u>	<u>\$ 535,824</u>	<u>\$ 678,944</u>	<u>(\$ 68,749)</u>	<u>\$ 1,909,669</u>
BALANCE, JANUARY 1, 2016	76,833	\$ 768,323	\$ 455,370	\$ 184,051	\$ 926	\$ 476,861	\$ 661,838	(\$ 68,749)	\$ 1,816,782
Change in capital surplus from investments in associates accounted for by using equity method	-	-	6,925	-	-	-	-	-	6,925
Net profit for the three months ended March 31, 2016	-	-	-	-	-	166,012	166,012	-	166,012
Total comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	166,012	166,012	-	166,012
Retirement of treasury share	(1,050)	(10,500)	(11,044)	-	-	(47,205)	(47,205)	68,749	-
Share-based payments	-	-	2,732	-	-	-	-	-	2,732
BALANCE, MARCH 31, 2016	<u>75,783</u>	<u>\$ 757,823</u>	<u>\$ 453,983</u>	<u>\$ 184,051</u>	<u>\$ 926</u>	<u>\$ 595,668</u>	<u>\$ 780,645</u>	<u>\$ -</u>	<u>\$ 1,992,451</u>

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 185,595	\$ 129,676
Adjustments for:		
Depreciation expenses	6,748	7,002
Amortization expenses	2,270	2,243
Bad debt expense (reversal of bad debt expense) on accounts receivable	3,253	(2,849)
Interest income	(3,406)	(3,498)
Share-based payments	2,732	-
Share of loss of associates	1,974	1,484
Loss on disposal of property, plant and equipment	6	95
Gain on disposal of investments	(44,616)	(33)
Impairment losses on financial assets	794	-
Net loss on foreign currency exchange	2,577	1,822
Changes in operating assets and liabilities		
Accounts receivable	(34,227)	(11,254)
Accounts receivable - related parties	(695)	996
Other receivables	9	-
Other receivables - related parties	9	59
Prepayments	(15,336)	(4,253)
Other current assets	(5,124)	(2,424)
Other payables	(1,016)	(19,186)
Other current liabilities	(4,210)	3,669
Net defined benefit liability	(76)	-
Bonuses payable to employees, directors and supervisors	<u>36,609</u>	<u>17,507</u>
Cash generated from operations	133,870	121,056
Interest received	3,372	3,469
Income tax paid	(3,103)	(3,868)
Net cash generated from operating activities	<u>134,139</u>	<u>120,657</u>

(Continued)

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(\$ 100,000)	(\$ 80,000)
Proceeds from disposal of available-for-sale financial assets	100,023	80,033
Proceeds from disposal of financial assets measured at cost	46,513	-
Acquisition of property, plant and equipment	(8,501)	(8,460)
Acquisition of intangible assets	(3,575)	(2,820)
Net cash generated from (used in) investing activities	<u>34,460</u>	<u>(11,247)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(972)	(1,139)
NET INCREASE IN CASH	167,627	108,271
CASH AT THE BEGINNING OF THE PERIOD	<u>1,367,019</u>	<u>1,323,163</u>
CASH AT THE END OF THE PERIOD	<u>\$1,534,646</u>	<u>\$1,431,434</u>

(Concluded)

Notice to Readers

The above consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the previously mentioned consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. For the complete consolidated financial statements in Chinese version, please refer to MOPS: <http://mops.twse.com.tw/mops/web/index>