



eMemory Technology Inc. Reports Results for the Third Quarter 2016

Hsinchu, Taiwan, 8th November, 2016 – eMemory Technology Inc. announces its financial results for the third quarter ended 30th September 2016.

Q3 2016 –Financial Summary (Unit: NT\$ thousands)	Q3 2016	Q2 2016	% Change	Q3 2015	% Change
Net revenue	309,367	280,019	10.5%	251,815	22.9%
Gross margin	100%	100%	-	100%	-
Operating expenses	173,605	163,276	6.3%	143,776	20.7%
Operating margin	43.9%	41.7%	2.2ppts	42.9%	1.0ppts
Net income	130,299	106,245	22.6%	106,301	22.6%
Net margin	42.1%	37.9%	4.2ppts	42.2%	-0.1ppts
EPS (NT\$ per common share)	1.72	1.40	22.9%	1.40	22.9%

Q3 2016 Financial Highlights

- Revenue in Q3 2016 was up 22.9% over Q3 2015.
- Operating expenses in Q3 2016 were up 20.7% as compared to Q3 2015.
- Net income in Q3 2016 was up 22.6% as compared to Q3 2015.
- Net margin in Q3 2016 was down 0.1ppts as compared to Q3 2015.
- EPS in Q3 2016 was up 22.9% over the same period of last year.

Progress in technology license in Q3 2016

6 technology licenses have signed with 4 customers, in Q3 2016. 2 of licenses were signed in NeoFuse, 2 of licenses were signed in NeoBit, 1 of licenses was signed in NeoMTP, and 1 of licenses was signed in NeoEE.

111 process platforms are currently being developed, covering from 0.18um to 7nm, is reflecting the ongoing demand for eMemory's technologies. These technology licenses are summarized as follows:

- Progress in advance nodes:
 - In 7nm process, IP is under development.
 - In 10nm FF process, first IP has been successfully verified.
 - In 14nm/16nm process, IP was qualified in 1 process node, and 3 platforms are under development.
 - In 28nm process, IPs were qualified in 5 process nodes, and 9 platforms are under development.
 - In 40nm process, IPs were qualified in 4 process nodes, and 6 platforms are under development.
 - In 55nm process, IPs were qualified in 12 process nodes, and 14 platforms are under development.
 - In 90nm process, IPs were qualified in 6 process nodes, and 7 platforms are under development.
- Progress in legacy nodes:
 - 67 platforms were under development.



Progress in design license in Q3 2016

For design licenses, we have supported 99 product taped-outs in Q3 with a board range of application. Among these, there were 22 tape-outs in LCD driver, 17 tape-outs in PMIC, 18 tape-outs in MCU, 15 tape-out in Fingerprint, 6 tape-out in Sensor related, 4 tape-outs in OLED driver, 3 tape-outs in CIS, 2 in Network IC, and 12 tape-outs in other applications. These tape-outs are summarized as below.

- 7 taped-outs in 40nm for the applications of CIS, PMIC, and LCD driver.
- 6 taped-outs in 55nm/65nm for the applications of LCD driver, and OLED driver.
- 4 taped-outs in 80nm/90nm for the applications of CIS, LCD driver, and OLED driver.
- 14 taped-outs in 0.11um/0.13um for the applications of LCD driver, PMIC, Network IC, and sensor-related.
- 60 taped-outs in 0.15um/0.18um for the applications of Fingerprint, CIS, LCD driver, PMIC, sensor-related, MCU, and Network IC.
- 8 taped-outs in 0.25um/0.35um for the application of Fingerprint and MCU.

Royalty result in Q3 2016

Royalties among are generated from 3,437 design licenses and 1,116 verified NVM IPs. With the existing applications keep volume production and the progress in new applications, we believe royalty revenue will continue to grow. Following are the main contributors to royalty revenue in Q3 2016:

- PMIC application contributed 26.73% royalty revenue in Q3, it dropped by 7.25% year-on-year and dropped 8.95% quarter-on-quarter. The decline was mainly due to iOS related application customers dropped 48.05% year-on-year. However, Android related application customers increased 64.8% as compared to Q3 2015. We perceive that the growth of iOS related PMIC application will resume in 2017.
- DDI application contributed 50.20% royalty revenue in Q3, it grew 22.02% year-on year and increased 3.05% quarter-on-quarter. Among these, iOS related application customer dropped 60.20% year-on-year, and Android related application customers increased 44.25% over Q3 2015. The DDI royalty revenue included TDDI's application.
- Other applications, including Fingerprint, STB, MCU, Bluetooth , Network IC, STB and sensor- related, contributed 23.07% royalty revenue in Q3, it grew 10.40% year-on-year and increased 29.15% quarter-on-quarter.

In Q3 2016, 70.47% royalty revenue contributed from 8-inch wafer production, and 29.53% contributed from 12-inch wafer production. The royalty revenue contribute from 12-inch wafer production grew 3.08%, and 8-inch wafer production grew 1.26%, year-on-year.

Outlook

Base on our current visibility, we anticipate that Q4 will be better than Q3, and that growth momentum will speed up in 2017 for the following reasons:

- For PMIC applications, there are three factors which drive continuous growth.
 - A new contractual agreement with our biggest PMIC customer.
 - We have engaged with another large US customer and taped-out products.
 - Existing customers are expanding their product portfolio.



- For TDDI, we expect 55nm TDDI will contribute to growth in 2017 as some DDI production will switch to TDDI. TDDI adds touch functionality to DDI resulting in larger chip sizes and increased ASP. A customer win with the largest Korea smart phone maker through our US customer should lead to significant growth in 2017 and 2018.
- For Fingerprint Sensor applications, in the second half of 2016 volume production began and we expect revenue to continue increasing into 2017. One US fingerprint sensor supplier and one Chinese supplier have started to tape-out its CIS fingerprint sensors, which will contribute to growth in 2017 and beyond.
- For 28nm, one DTV customer continues in production, and there are two other customers ready for production in 2017.
- For OLED Driver applications, our customers supplying to Korean panel makers has taped-out products.
- For CIS, one big customer has begun production ramp up.
- Advanced technology nodes will drive our future growth:
 - For 16nm, one security related application customer is already planning to tape-out.
 - For 10nm, our first IP has been successfully verified.
 - Our 7nm project has already kicked-off.
- NeoPUF, our new technology platform for security applications taped-out 55nm IP in October.
- Automotive applications continue their platform build and have started production.
- Increasing demand in MTP technology for USB type-c related applications.

Management remarks

Looking ahead, with the existing TDDI, Fingerprint Sensor, and CIS applications have entered volume production, and the progress in OLED driver application and 16nm/10nm, we expect the revenue will continue to grow for the coming years.

Financial review

Q3 2016 – Revenue Breakdown (Unit: NT\$ thousands)	Q3 2016	Q2 2016	% Change	Q3 2015	% Change
Licensing	86,712	77,715	11.58%	38,167	127.19%
Royalty	222,655	202,304	10.06%	213,648	4.22%
Total	309,367	280,019	10.48%	251,815	22.85%

Total revenues

Total revenues in Q3 2016 were NT\$ 309.37 million, up 22.85% versus Q3 2015.

Licensing revenues

Licensing revenues in Q3 2016 up by 127.19% to NT\$ 86.71 million as compared to Q3 2015, representing 28.03% of Q3 revenue. The increasing is because we expanding our content and market share with exciting customers.



Royalty revenues

Royalty revenues in Q3 2016 were up 4.22% to NT\$222.66 million as compared to Q3 2015, representing 71.97% of Q3 revenue.

Royalty revenues is 70.5% from 8-inch and 29.5% is from 12-inch wafer production in Q3 2016. Mainly comes from the applications of DDI, PMIC and other applications.

Gross margin

Gross margin in Q3 2016 was 100% equal to in Q3 2015.

Operating expenses and operating margin

Operating expenses in Q3 2016 increased by 20.7% year-on-year to NT\$173.61 million.

Operating margin in Q3 2016 was 43.9%, up 1.0ppts versus Q3 2015.

Among the increase of operation expenses, it is about 6% increase of employee bonus, 4% increase is from the share based employee compensation, 5% increase is from the increase of employees and employee annual salary adjustment, and 5% increase is due to investing on design and testing tool.

Earnings and income tax expense

Net income in Q3 2016 up by 22.6% to NT\$130.30 million as compare to Q2 2016.

Income tax expense in Q3 2016 was NT\$ 16.98 million, up 11.4% from Q2 2016.

In Q3 2016, earnings per share were NT\$1.72, up 22.9% from Q2 2016.

Balance sheet

At the end of Q3 2016, cash was NT\$1,318.87 million, increased by NT\$126.82 million from Q3 2015.

Total current liabilities were NT\$241.67 million, increased by NT\$58.41 million from Q3 2015. The increase was mainly due to higher bonus provisions.

Net working capital was NT\$1,205.24 million, increased by NT\$90.24 million as compared to Q3 2015.

Cash flow and dividend

Cash generated from operating activities at the end of Q3 2016 increased by NT\$51.55 million from Q3 2015 to NT\$385.54 million.

Net cash generated from investing activities at the end of Q3 2016 was NT\$25.67 million, increased by NT\$38.46 million compared to the same period of 2015, primarily attributed to subsidiary company gained on disposal financial assets in this year.

At the end of Q3 2016, eMemory's cash balance was NT\$1,318.87 million, an increased by NT\$126.82 million over Q3 2015.



Employees

At the end of Q3 2016, eMemory had 230 full-time employees, an increase of 0.88% as compared to Q2 2016. Among them 160 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	September 30, 2016 (Reviewed)		December 31, 2015 (Audited)		September 30, 2015 (Reviewed)		LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2016 (Reviewed)		December 31, 2015 (Audited)		September 30, 2015 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$1,318,872	64	\$1,367,019	67	\$1,192,047	63	Other payables	\$ 79,002	4	\$ 80,331	4	\$ 56,444	3
Accounts receivable - net	51,330	3	55,539	3	38,828	2	Bonuses payable to employees, directors and supervisors	89,709	4	77,899	4	57,203	3
Accounts receivable - related parties	730	-	-	-	-	-	Payables on equipment	1,162	-	6,135	-	217	-
Other receivables	218	-	641	-	946	-	Current tax liabilities	50,279	3	15,189	1	48,078	3
Other receivables - related parties	145	-	57	-	141	-	Other current liabilities	21,520	1	20,706	1	21,316	1
Prepayments	73,030	4	11,625	1	60,290	3	Total current liabilities	241,672	12	200,260	10	183,258	10
Other current assets	2,584	-	4,372	-	6,008	-	NON-CURRENT LIABILITIES						
Total current assets	1,446,909	71	1,439,253	71	1,298,260	68	Net defined benefit liability - noncurrent	17,260	1	17,591	1	14,669	1
NON-CURRENT ASSETS							Guarantee deposits received	415	-	840	-	840	-
Financial assets measured at cost - noncurrent	12,129	1	15,500	1	15,917	1	Total non-current liabilities	17,675	1	18,431	1	15,509	1
Investments in debt instrument without active market - noncurrent	33,609	2	33,609	2	33,608	2	Total liabilities	259,347	13	218,691	11	198,767	11
Investment accounted for using equity method	8,451	-	6,645	-	8,431	1	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Property, plant and equipment	478,698	23	491,612	24	489,847	26	Ordinary shares	757,823	37	768,323	38	768,323	41
Intangible assets	49,633	2	42,885	2	39,926	2	Capital surplus	441,421	21	455,370	22	455,370	24
Deferred tax assets	4,114	-	5,704	-	3,996	-	Retained earnings						
Prepayments for equipment	13,041	1	-	-	-	-	Legal reserve	231,737	11	184,051	9	184,051	10
Refundable deposits	269	-	265	-	357	-	Special reserve	926	-	926	-	926	-
Total non-current assets	599,944	29	596,220	29	592,082	32	Unappropriated earnings	355,599	18	476,861	23	351,654	18
							Total retained earnings	588,262	29	661,838	32	536,631	28
							Treasury shares	-	-	(68,749)	(3)	(68,749)	(4)
							Total equity	1,787,506	87	1,816,782	89	1,691,575	89
TOTAL	\$2,046,853	100	\$2,035,473	100	\$1,890,342	100	TOTAL	\$2,046,853	100	\$2,035,473	100	\$1,890,342	100

eMemory Technology Inc. and Subsidiary

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE	\$309,367	100	\$251,815	100	\$909,232	100	\$790,742	100
OPERATING COSTS	-	-	-	-	-	-	-	-
GROSS PROFIT	<u>309,367</u>	<u>100</u>	<u>251,815</u>	<u>100</u>	<u>909,232</u>	<u>100</u>	<u>790,742</u>	<u>100</u>
OPERATING EXPENSES								
Selling and marketing expenses	27,606	9	26,110	10	82,796	9	69,208	9
General and administrative expenses	37,705	12	32,686	13	111,170	13	98,782	12
Research and development expenses	<u>108,294</u>	<u>35</u>	<u>84,980</u>	<u>34</u>	<u>320,003</u>	<u>35</u>	<u>246,197</u>	<u>31</u>
Total operating expenses	<u>173,605</u>	<u>56</u>	<u>143,776</u>	<u>57</u>	<u>513,969</u>	<u>57</u>	<u>414,187</u>	<u>52</u>
OPERATING REVENUE	<u>135,762</u>	<u>44</u>	<u>108,039</u>	<u>43</u>	<u>395,263</u>	<u>43</u>	<u>376,555</u>	<u>48</u>
NON-OPERATING INCOME AND EXPENSES								
Other income	2,456	1	3,810	2	12,943	1	20,836	2
Other gains and losses	10,738	4	11,014	4	51,264	6	5,993	1
Share of loss of associates	<u>(1,680)</u>	<u>(1)</u>	<u>(1,487)</u>	<u>(1)</u>	<u>(5,120)</u>	-	<u>(5,133)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>11,514</u>	<u>4</u>	<u>13,337</u>	<u>5</u>	<u>59,087</u>	<u>7</u>	<u>21,696</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	147,276	48	121,376	48	454,350	50	398,251	50
INCOME TAX EXPENSE	<u>16,977</u>	<u>6</u>	<u>15,075</u>	<u>6</u>	<u>51,794</u>	<u>6</u>	<u>47,230</u>	<u>6</u>
NET PROFIT	<u>130,299</u>	<u>42</u>	<u>106,301</u>	<u>42</u>	<u>402,556</u>	<u>44</u>	<u>351,021</u>	<u>44</u>
TOTAL COMPREHENSIVE INCOME	<u>\$130,299</u>	<u>42</u>	<u>\$106,301</u>	<u>42</u>	<u>\$402,556</u>	<u>44</u>	<u>\$351,021</u>	<u>44</u>
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Company	\$130,299	42	\$106,301	42	\$402,556	44	\$351,021	44
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$130,299</u>	<u>42</u>	<u>\$106,301</u>	<u>42</u>	<u>\$402,556</u>	<u>44</u>	<u>\$351,021</u>	<u>44</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$130,299	42	\$106,301	42	\$402,556	44	\$351,021	44
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$130,299</u>	<u>42</u>	<u>\$106,301</u>	<u>42</u>	<u>\$402,556</u>	<u>44</u>	<u>\$351,021</u>	<u>44</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.72</u>		<u>\$ 1.40</u>		<u>\$ 5.31</u>		<u>\$ 4.63</u>	
Diluted	<u>\$ 1.71</u>		<u>\$ 1.40</u>		<u>\$ 5.29</u>		<u>\$ 4.62</u>	

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
Appropriations of 2014 earnings									
Legal reserve	-	-	-	41,857	-	(41,857)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(378,911)	(378,911)	-	(378,911)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	9,583	-	-	-	-	-	9,583
Issue of cash dividends from capital surplus	-	-	(75,782)	-	-	-	-	-	(75,782)
Net profit for the nine months ended September 30, 2015	-	-	-	-	-	351,021	351,021	-	351,021
Total comprehensive income for the nine months ended September 30, 2015	-	-	-	-	-	351,021	351,021	-	351,021
BALANCE, SEPTEMBER 30, 2015	<u>76,833</u>	<u>\$ 768,323</u>	<u>\$ 455,370</u>	<u>\$ 184,051</u>	<u>\$ 926</u>	<u>\$ 351,654</u>	<u>\$ 536,631</u>	<u>(\$ 68,749)</u>	<u>\$1,691,575</u>
BALANCE, JANUARY 1, 2016	76,833	\$ 768,323	\$ 455,370	\$ 184,051	\$ 926	\$ 476,861	\$ 661,838	(\$ 68,749)	\$1,816,782
Appropriations of 2015 earnings									
Legal reserve	-	-	-	47,686	-	(47,686)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(428,927)	(428,927)	-	(428,927)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	6,926	-	-	-	-	-	6,926
Issue of cash dividends from capital surplus	-	-	(25,766)	-	-	-	-	-	(25,766)
Net profit for the nine months ended September 30, 2016	-	-	-	-	-	402,556	402,556	-	402,556
Total comprehensive income for the nine months ended September 30, 2016	-	-	-	-	-	402,556	402,556	-	402,556
Retirement of treasury share	(1,050)	(10,500)	(11,044)	-	-	(47,205)	(47,205)	68,749	-
Share-based payments	-	-	15,935	-	-	-	-	-	15,935
BALANCE, SEPTEMBER 30, 2016	<u>75,783</u>	<u>\$ 757,823</u>	<u>\$ 441,421</u>	<u>\$ 231,737</u>	<u>\$ 926</u>	<u>\$ 355,599</u>	<u>\$ 588,262</u>	<u>\$ -</u>	<u>\$1,787,506</u>

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 454,350	\$ 398,251
Adjustments for:		
Depreciation expenses	19,800	20,444
Amortization expenses	6,785	6,354
Bad debt expense (reversal of bad debt expense) on accounts receivable	31	(466)
Interest income	(8,914)	(10,394)
Dividend income	(2,000)	(8,629)
Share-based payments	15,935	-
Share of loss of associates	5,120	5,133
Loss on disposal of property, plant and equipment	6	95
Gain on disposal of investments	(59,497)	(113)
Impairment losses on financial assets	794	758
Net loss (gain) on foreign currency exchange	4,504	(3,162)
Changes in operating assets and liabilities		
Accounts receivable	3,994	11,890
Accounts receivable - related parties	(730)	1,299
Other receivables	130	(502)
Other receivables - related parties	(88)	(36)
Prepayments	(9,929)	(6,352)
Other current assets	1,788	(5,260)
Other payables	(1,453)	(25,562)
Other current liabilities	814	13,169
Net defined benefit liability	(331)	-
Bonuses payable to employees, directors and supervisors	11,810	(7,004)
Cash generated from operations	442,919	389,913
Interest received	9,197	10,438
Income tax paid	(66,580)	(66,360)
Net cash generated from operating activities	<u>385,536</u>	<u>333,991</u>

(Continued)

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(\$ 495,000)	(\$ 427,000)
Proceeds from disposal of available-for-sale financial assets	495,079	427,113
Proceeds from disposal of financial assets measured at cost	61,995	-
Acquisition of property, plant and equipment	(11,826)	(14,519)
Increase in refundable deposits	(4)	-
Decrease in refundable deposits	-	1,500
Acquisition of intangible assets	(13,533)	(8,517)
Increase in prepayments for equipment	(13,041)	-
Dividend received	<u>2,000</u>	<u>8,629</u>
Net cash generated from (used in) investing activities	<u>25,670</u>	(<u>12,794</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(454,693)	(454,693)
Increase in guarantee deposits received	-	425
Decrease in guarantee deposits received	(<u>425</u>)	<u>-</u>
Net cash used in financing activities	(<u>455,118</u>)	(<u>454,268</u>)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	(<u>4,235</u>)	<u>1,955</u>
NET DECREASE IN CASH	(48,147)	(131,116)
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>\$ 1,318,872</u>	<u>\$ 1,192,047</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>