



eMemory Technology Inc. Reports Results for the Fourth Quarter and Full-Year 2016

Hsinchu, Taiwan, 16th February, 2017 – eMemory announces its financial results for the fourth quarter and full-year ended 31 December 2016.

Q4 2016 – Unaudited Financial Summary (Unit: NT\$ thousands)	Q4 2016	Q4 2015	% Change
Net revenue	306,227	300,878	1.78%
Gross margin	100%	100%	-
Operating expenses	171,681	156,216	9.90%
Operating margin	43.9%	48.1%	-4.2ppts
Net income	132,361	128,090	3.33%
Net margin	43.2%	42.6%	+0.6ppts
EPS (NT\$ per common share)	1.75	1.69	3.55%

FY 2016 – Unaudited Financial Summary (Unit: NT\$ thousands)	FY 2016	FY 2015	% Change
Net revenue	1,215,459	1,091,620	11.34%
Gross margin	100%	100%	-
Operating expenses	685,650	570,403	20.20%
Operating margin	43.6%	47.7%	-4.1ppts
Net income	534,917	479,111	11.65%
Net margin	44.0%	43.9%	+0.1ppts
EPS (NT\$ per common share)	7.06	6.32	11.71%

Q4 and full-year 2016 Financial Highlights

- Revenue in Q4 2016 was up 1.78% over Q4 2015. Full-year revenue was up 11.34% year-on-year.
- Operating expenses in Q4 2016 were up 9.90% as compared to Q4 2015. Full-year operating expenses were up 20.20% year-on-year.
- Net income in Q4 2016 was up 3.33% as compared to Q4 2015. Full-year net income was up 11.65% year-on-year.
- Net margin in Q4 2016 was up 0.6ppts as compared to Q4 2015. Full-year net margin was up 0.1ppts year-on-year.
- EPS in Q4 2016 was up 3.55% over the same period of last year. Full-year EPS was up 11.71% year-on-year.

Progress in technology license in Q4 2016

In Q4 2016, there were 10 technology licenses contract signed with 5 customers. Among these technology licenses, 6 of them were related to NeoEE, 3 were related to NeoMTP, and 1 was related to NeoBit.

As customers increase adoption the advance nodes and MTP technology, 43 technology licenses were signed with 14 customers, in 2016. Technology license grew 53.57% year-on-year.



Currently, 104 process platforms from 0.18um to 7nm are under development, and were summarized as follows:

- Progress in advance nodes:
 - In 7nm process, IP is under development, test chip is expected to tape out in February.
 - 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 6 process nodes, and 8 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 14 process nodes, and 11 platforms are under development.
 - In 90nm process, IPs were qualified in 6 process nodes, and 7 platforms are under development.
- Progress in legacy nodes:
 - 65 platforms are under development.

Progress in design license in Q4 2016

In Q4 2016, we supported 85 customer product tape-outs in design licensing which covering from 0.35um to 16nm. Among these customers' product taped-outs, there were 21 tape-outs in PMIC, 21 tape-outs in LCD driver, 11 tape-outs in MCU, 10 tape-outs in Fingerprint, 6 tape-outs in sensor related, 5 tape-outs in OLED driver, 2 tape-outs in Network IC, and 9 tape-outs in other applications. These tape-outs are summarized as below.

- 1 tape-out in 16nm for the application of STB/DTV.
- 2 taped-outs in 40nm for the application of OLED driver.
- 4 tape-outs in 55nm for the applications of LCD driver and Fingerprint.
- 7 taped-outs in 80nm/90nm for the applications of LCD driver, OLED driver and sensor-related.
- 26 taped-outs in 0.11um/0.13um for the applications of LCD driver, PMIC, Network IC, and sensor-related.
- 39 taped-outs in 0.15um/0.18um for the applications of LCD driver, PMIC, Fingerprint, and MCU.
- 5 taped-outs in 0.25um/0.35um for the application of PMIC, Fingerprint, and MCU.

Royalty result in Q4 2016

By the end of 2016, the number of cumulative design licenses signed total up to 3,522. With the new platforms developed and new product tape-outs over the past few years, we expect that the revenue will continue to grow with good momentum in the coming and next years. Following are the main contributors to royalty revenue in Q4 2016:

- PMIC application contributed 38.01% royalty revenue in Q4, it grew 22.03% year-on-year and increased 44.46% quarter-on-quarter.
- DDI application contributed 32.22% royalty revenue in Q4, it dropped 31.62% year-on-year and down 34.72% quarter-on-quarter.
- Other applications, including Fingerprint, STB, MCU, Bluetooth, Network IC, STB and sensor-related, contributed 29.79% royalty revenue in Q4, it grew 24.34% year-on-year and increased 29.31.70% quarter-on-quarter.



In Q4 2016, 86.15% royalty revenue contributed from 8-inch wafer production, and 13.85% contributed from 12-inch wafer production. We are pleased to see the shipment from iOS related DDI customers have come back to normal. In January 2017, over 30% of royalty revenue contributed from 12-inch wafer production.

Outlook

Looking forward to the future, the growth momentum of revenue will speed up due to the following factors;

- License fee expected to grow due to the strong demand for advanced process and MTP platform in worldwide foundry partners, it will increase technology license and design license revenues.
- 8-inch wafer will grow further due to multiple fingerprint customers are ramping up production and more customers will start volume production later this year.
- PMIC continually extends to the application of wireless charger and fast charger related products, and our largest US customer will ramp up their new generation of PMIC in second half of 2017.
- Automotive platforms have been successfully built and customers already started small volume production.
- The volume production of TDDI, OLED, STB/DTV, CIS and security applications have continuously increased their contribution to 12-inch wafer royalty.
- First 16nm IP taped-out in 2016, 10nm IP has been successfully verified, and 7nm test chip is expected to tape-out in February will continue increase our penetration rate in 12-inch fab.

Management remarks

Licensing fee increased 23.39% and royalty income increased 7.43 % year-on-year. In 2016, 43 license contracts have been signed with 14 customers. It grows more than 53% as it compare to the year of 2015. With the new platforms developed and new product tape-outs over the past few years, we believe that the revenue will continue to grow with good momentum in the coming years.

Financial review

Q4 2016 – Revenue Breakdown (Unit: NT\$ thousands)	Q4 2016	Q4 2015	% Change
Licensing	79,684	69,307	14.97%
Royalty	226,543	231,571	-2.17%
Total	306,227	300,878	1.78%

FY 2016 – Revenue Breakdown (Unit: NT\$ thousands)	2016	2015	% Change
Licensing	330,087	267,512	23.39%
Royalty	885,372	824,108	7.43%
Total	1,215,459	1,091,620	11.34%



Total revenues

Total revenues in Q4 2016 were NT\$ 306.23 million, up 1.78% versus Q4 2015.

Full-year 2016 revenues amounted to NT\$1,215.46 million, up 11.34% on full-year 2015.

Licensing revenues

Licensing revenues in Q4 2016 increased by 14.97% to NT\$ 79.68 million as compared to Q4 2015, representing 26.02% of Q4 revenue.

The increased in licensing revenue is due to the development and expansion in advance nodes, and customers increased the adoption of MTP technology. We have 104 process platforms underdeveloped, including 19 in NeoBit, 43 in NeoFuse, 22 in NeoEE and 20 in NeoMTP.

Full-year 2016 licensing revenues amounted to NT\$ 330.09 million, up 23.39% versus 2015.

Royalty revenues

Royalty revenues in Q4 2016 were down 2.17% to NT\$ 226.54 million as compared to Q4 2015, representing 73.98% of Q4 revenue.

Royalty revenues is 86.15% from 8-inch and 13.85% is from 12-inch wafer production in Q4 2016. Mainly comes from the applications of PMIC, DDI, Fingerprint, STB/DTV, MCU, and sensor-related.

Full-year 2016 royalty revenues were NT\$ 885.37 million, up 7.43% year-on-year.

Gross margin

Gross margin in Q4 2016 was 100% equal to in Q4 2015.

Operating expenses and operating margin

Operating expenses in Q4 2016 increased by 9.90% year-on-year to NT\$171.68 million.

Full-year 2016 operating expenses were NT\$685.65 million, up 20.20% than full-year 2015.

Among the increase of operation expenses, it is about 6% increase of employee bonus, 4% increase is from the share based employee compensation, 3% increase is from the increase of employees and employee annual salary adjustment, and 3% increase is due to investing on design and testing tool.

Earnings and income tax expense

Net income in Q4 2016 increased by 3.33% to NT\$ 132.36 million as compare to Q4 2015.

Full-year 2016 net income was NT\$ 534.92 million, up 11.65% as compared to 2015.

Income tax expense in Q4 2016 was NT\$ 21.53 million, up 27.03% from Q4 2015. Full-year 2016 income tax expense totaled NT\$73.33 million, up 14.26% from 2015.

In Q4 2016, earnings per share were NT\$1.75, up 3.55% from Q4 2015. Full-year 2015 earnings per share were NT\$7.06, up 11.7% from NT\$6.32 in 2015.



Balance sheet

At the end of 2016, cash and marketable securities totaled NT\$1,501.61 million, increased by NT\$134.59 million from 2015.

Total current liabilities were NT\$ 254.61 million, increased by NT\$ 54.35 million from 2015. The increase was mainly due to higher bonus provisions.

Net working capital was NT\$1,329.00 million, increased by NT\$ 90.01 million as compared to 2015.

Cash flow and dividend

On a full-year basis, cash generated from operating activities increased by NT\$53.24 million to NT\$571.70 million in 2016.

Net cash generated from investing activities was NT\$ 20.85 million, increased by NT\$40.98 million compared to 2015, primarily attributed to subsidiary company gained on disposal financial assets in this year.

Net cash used in financing activities increased NT\$0.85 million to NT\$455.12 million.

At the end of 2016, eMemory's cash balance was NT\$1,501.61 million, increased by NT\$ 134.59 million as compared to 2015.

Employees

At 31 December 2016, eMemory had 232 full-time employees, an increase of 1.8% compared to 2015. Among them 162 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 (UNAUDITED)

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015		LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$1,501,611	68	\$1,367,019	67	Other payables	\$ 97,315	4	\$ 80,331	4
Accounts receivable - net	64,820	3	55,539	3	Bonuses payable to employees, directors and supervisors	109,974	5	77,899	4
Accounts receivable - related parties	1,681	-	-	-	Payables on equipment	6,335	-	6,135	-
Other receivables	256	-	641	-	Current tax liabilities	17,064	1	15,189	1
Other receivables - related parties	44	-	57	-	Other current liabilities	23,920	1	20,706	1
Prepayments	13,712	1	11,625	1	Total current liabilities	254,608	11	200,260	10
Other current assets	1,485	-	4,372	-	NON-CURRENT LIABILITIES				
Total current assets	1,583,609	72	1,439,253	71	Net defined benefit liability - noncurrent	19,523	1	17,591	1
NON-CURRENT ASSETS					Guarantee deposits received	415	-	840	-
Financial assets measured at cost - noncurrent	11,472	1	15,500	1	Total non-current liabilities	19,938	1	18,431	1
Investments in debt instrument without active market - noncurrent	33,610	2	33,609	2	Total liabilities	274,546	12	218,691	11
Investment accounted for using equity method	6,888	-	6,645	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY				
Property, plant and equipment	503,249	23	491,612	24	Ordinary shares	757,823	35	768,323	38
Intangible assets	54,796	2	42,885	2	Capital surplus	448,025	20	455,370	22
Deferred tax assets	4,748	-	5,704	-	Retained earnings				
Refundable deposits	300	-	265	-	Legal reserve	231,737	11	184,051	9
Total non-current assets	615,063	28	596,220	29	Special reserve	926	-	926	-
					Unappropriated earnings	485,615	22	476,861	23
					Total retained earnings	718,278	33	661,838	32
					Treasury shares	-	-	(68,749)	(3)
					Total equity	1,924,126	88	1,816,782	89
TOTAL	\$2,198,672	100	\$2,035,473	100	TOTAL	\$2,198,672	100	\$2,035,473	100

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE	\$ 1,215,459	100	\$ 1,091,620	100
OPERATING COSTS	-	-	-	-
GROSS PROFIT	<u>1,215,459</u>	<u>100</u>	<u>1,091,620</u>	<u>100</u>
OPERATING EXPENSES				
Selling and marketing expenses	110,284	9	94,431	8
General and administrative expenses	147,539	12	128,143	12
Research and development expenses	<u>427,827</u>	<u>35</u>	<u>347,829</u>	<u>32</u>
Total operating expenses	<u>685,650</u>	<u>56</u>	<u>570,403</u>	<u>52</u>
OPERATING REVENUE	<u>529,809</u>	<u>44</u>	<u>521,217</u>	<u>48</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	15,605	1	24,817	2
Other gains and losses	69,514	6	4,172	-
Share of loss of associates	(6,686)	(1)	(6,919)	(-)
Total non-operating income and expenses	<u>78,433</u>	<u>6</u>	<u>22,070</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	608,242	50	543,287	50
INCOME TAX EXPENSE	<u>73,325</u>	<u>6</u>	<u>64,176</u>	<u>6</u>
NET PROFIT FOR THE YEAR	<u>534,917</u>	<u>44</u>	<u>479,111</u>	<u>44</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	(2,345)	-	(2,883)	-
Other comprehensive income (loss) for the year	(2,345)	-	(2,883)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 532,572</u>	<u>44</u>	<u>\$ 476,228</u>	<u>44</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 534,917	44	\$ 479,111	44
Non-controlling interests	-	-	-	-
	<u>\$ 534,917</u>	<u>44</u>	<u>\$ 479,111</u>	<u>44</u>

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eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
TOTAL COMPREHENSIVE INCOME				
ATTRIBUTABLE TO:				
Owners of the Company	\$ 532,572	44	\$ 476,228	44
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 532,572</u>	<u>44</u>	<u>\$ 476,228</u>	<u>44</u>
EARNINGS PER SHARE				
Basic	<u>\$ 7.06</u>		<u>\$ 6.32</u>	
Diluted	<u>\$ 7.03</u>		<u>\$ 6.30</u>	

(Concluded)

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	Ordinary Shares		Capital Surplus	Retained Earnings			Treasury Shares	Total Equity	
	Shares (In Thousands)	Amount		Legal Reserve	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 year ended December 31, 2015	-	-	-	-	-	479,111	479,111	-	479,111
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	-	(2,883)	(2,883)	-	(2,883)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	476,228	476,228	-	476,228
BALANCE, DECEMBER 31, 2015	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	-	-	6,929	-	-	-	-	-	6,929
Issue of cash dividends from capital surplus	-	-	(25,766)	-	-	-	-	-	(25,766)
Net profit for the year ended December 31, 2016	-	-	-	-	-	534,917	534,917	-	534,917
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	-	(2,345)	(2,345)	-	(2,345)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	532,572	532,572	-	532,572
Retirement of treasury share	(1,050)	(10,500)	(11,044)	-	-	(47,205)	(47,205)	68,749	-
Share-based payments	-	-	22,536	-	-	-	-	-	22,536
BALANCE, DECEMBER 31, 2016	75,783	\$ 757,823	\$ 448,025	\$ 231,737	\$ 926	\$ 485,615	\$ 718,278	\$ -	\$ 1,924,126

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 608,242	\$ 543,287
Adjustments for:		
Depreciation expenses	26,182	26,885
Amortization expenses	9,173	8,518
Bad debt expense (reversal of bad debt expense) on accounts receivable	201	(2,566)
Interest income	(11,143)	(13,507)
Dividend income	(2,000)	(8,629)
Share-based payments	22,536	-
Share of loss of associates	6,686	6,919
Loss on disposal of property, plant and equipment	6	95
Gain on disposal of investments	(74,321)	(139)
Impairment losses on financial assets	794	1,175
Net loss (gain) on foreign currency exchange	1,440	(447)
Changes in operating assets and liabilities		
Accounts receivable	(8,026)	(3,237)
Accounts receivable - related parties	(1,655)	1,299
Other receivables	130	(130)
Other receivables - related parties	13	48
Prepayments	(2,047)	(4,249)
Other current assets	2,887	(3,624)
Other payables	16,859	(1,675)
Other current liabilities	3,214	12,559
Net defined benefit liability	(413)	39
Bonuses payable to employees, directors and supervisors	<u>32,075</u>	<u>13,692</u>
Cash generated from operations	630,833	576,313
Interest received	11,388	13,484
Income tax paid	(<u>70,524</u>)	(<u>71,341</u>)
Net cash generated from operating activities	<u>571,697</u>	<u>518,456</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(495,000)	(522,000)
Proceeds from disposal of available-for-sale financial assets	495,079	522,139
Acquisition of investments in debt instrument without active market	(1)	(1)
Proceeds from disposal of financial assets measured at cost	77,476	-
Acquisition of property, plant and equipment	(37,583)	(16,846)
Increase in refundable deposits	(35)	-
Decrease in refundable deposits	-	1,592
Acquisition of intangible assets	(21,084)	(13,640)
Dividend received	<u>2,000</u>	<u>8,629</u>
Net cash generated from (used in) investing activities	<u>20,852</u>	(<u>20,127</u>)

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eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
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>2,839</u>)	(<u>205</u>)
NET INCREASE IN CASH	134,592	43,856
CASH AT THE BEGINNING OF THE YEAR	<u>1,367,019</u>	<u>1,323,163</u>
CASH AT THE END OF THE YEAR	<u>\$ 1,501,611</u>	<u>\$ 1,367,019</u>

(Concluded)