



Management Report for Second Quarter Fiscal 2018

Hsinchu, Taiwan, August 10, 2018 – eMemory Technology Inc. (TPE : 3529) reported financial results for its fiscal quarter ended June 30, 2018.

Results Summary

(Amounts in thousands of NT dollars)

	Q2 2018	Q1 2018	Q2 2017	Change (QoQ)	Change (YoY)
Net Revenue	302,073	374,466	332,220	-19.3%	-9.1%
Gross Margin	100%	100%	100%	-	-
Operating Expenses	183,706	193,201	188,562	-4.9%	-2.6%
Operating Income	118,367	181,265	143,658	-34.7%	-17.6%
Operating Margin	39.2%	48.4%	43.2%	-9.2ppts	-4.0ppts
Net Income	112,193	168,730	135,610	-33.5%	-17.3%
Net Profit Margin	37.1%	45.1%	40.8%	-8.0ppts	-3.7ppts
EPS (NT\$ per common share)	1.48	2.23	1.79	-33.5%	-17.3%
ROE	23.2%	31.3%	29.6%	-8.1ppts	-6.4ppts

Financial Highlights

- Net revenue was NT\$ 302.07 million, declined 19.3% sequentially, and 9.1% from the comparable quarter last year.
- Operating expenses decreased 4.9% sequentially, and 2.6% year-over-year.
- Operating income was NT\$ 118.37 million, a decrease of 34.7% sequentially, and a decrease of 17.6% from the comparable quarter last year.
- Operating margin was 39.2%, down 9.2 percentage points from the prior quarter, and 4.0 percentage points from the same period in 2017.
- Net income for the quarter decreased 33.5% sequentially and 17.3% from the comparable quarter last year to NT\$ 112.19 million.
- Net profit margin was 37.1%, down 8.0 percentage points from the prior quarter, and 3.7 percentage points from the same period in 2017.
- EPS was NT\$ 1.48 and Return on Equity was 23.2%.

Key Business Developments

Licensing

- Technology License
 - 5 licensing contracts were signed with three different foundries (1 NeoBit, 3 NeoFuse, and 1 NeoEE) during the quarter.
 - As of June 30, 2018, we have technologies underdevelopment for adoption on 102 different process platforms, ranging from 0.18um to 7nm.



Development of Key Technology on 12-inch Nodes

	7/10nm	12/14/16nm	28nm	40nm	55/65nm	80/90nm	Total
Qualified	-	2	11	10	17	7	47
Developing	3	5	16	6	13	8	51

- Design License
 - A total of 110 product tape-outs in the second quarter : 25 for PMIC, 23 for LCD driver, 13 for IoT sensors, 10 for OLED driver, 9 for fingerprint (including under glass application), 8 for other sensor-related, 4 for motor driver, 3 for multimedia, 3 for network IC, and 12 for other applications.
 - Q2 customer product tape-outs are summarized as follows :
 - 2 tape-outs at 25nm for DRAM
 - 4 tape-outs at 28nm for network IC, and multimedia.
 - 9 tape-outs at 40nm for OLED driver and LCD driver.
 - 2 tape-outs at 55nm for LCD driver, and OLED driver.
 - 6 tape-outs at 80nm/90nm for LCD driver, and TDDI.
 - 31 tape-outs at 0.11um/0.13um for PMIC and LCD driver, IoT sensors, OLED driver, fingerprint, other sensors-related, multimedia, and audio.
 - 52 tape-outs at 0.15um/0.18um for PMIC, LCD driver, IoT sensors, fingerprint, other sensors-related, motor driver, network IC, and etc.
 - 4 tape-outs at 0.25um for PMIC, fingerprint, and motor driver.
 - As of June 30, 2018, eMemory's cumulative number of design licenses increased to 4,110, a direct result of our ongoing effort in expanding and diversifying our technologies for adoption in a wide range of applications.

Royalty

- Royalty revenue performance by applications:
 - Royalty revenue from display driver IC (DDI) decreased 44% sequentially. Within the DDI segment, royalty revenue from iOS devices and Android devices decreased 22.4% and 49.2%, respectively. As compared to the same period in 2017, royalty revenue from DDI decreased 23.9%. Specifically, royalty revenue from iOS devices remained flat while royalty revenue from Android devices decreased 29.7%. Royalty revenue from DDI accounted for 30.1% of the quarterly royalty revenue. The decrease in royalty revenue from DDI was mainly due to inventory correction in the smartphone sector. Since new OLED DDI solutions are in mass production, we are optimistic about our future growth. In fact, our July 2018 royalty revenue report shows that demand for DDI is on the rise.
 - Royalty revenue from power management IC (PMIC) decreased 17.4% sequentially. Within the PMIC segment, royalty revenue from iOS devices and Android devices decreased 19.0% and 13.2%, respectively. As compared to Q2 2017, royalty revenue from PMIC increased 32.0%. Specifically, royalty revenue from iOS devices increased by 69.8% but was partially offset by 13.8% decrease from Android devices. Royalty revenue from PMIC accounted for 29.7% of the quarterly royalty revenue.



The sequential decrease in royalty revenue from PMIC was also due to inventory correction in smartphone sector. However, we expect to benefit from new smartphone product launches in second half of the year.

- Royalty revenue from fingerprint sensors decreased 17.4% sequentially but increased 24.5% year-over-year. Royalty revenue from fingerprint sensors represented 11.5% of the quarterly royalty revenue. Revenue from this segment is expected to increase as innovative in-display fingerprint sensors are in mass production.
- Royalty revenue from other applications, including set-top box, microcontroller, and sensor-related, increased 12.2% sequentially and 4.8% from the comparable quarter last year. This segment accounted for 28.7% of the quarterly royalty revenue.
- Royalty revenue performance by process technology type:
 - 8-inch nodes accounted for 75.9% of total quarterly royalty revenue while 12-inch nodes accounted for the remainder 24.1%. Revenue contribution from 12-inch nodes has increased to 42% for July 2018. The reason is that product tape-outs for 55nm, 40nm, and 28nm process platforms from the prior years are now in mass production.

Business Outlook

We expect to maintain our growth trajectory based on the following trends and strategies:

Key drivers of licensing revenue growth:

- We will continue to establish strategic partnerships with worldwide foundries and expand our technology footprint on various process platforms.
- As we grow our IP library, our IP design licensing revenue will increase.
- New MTP licensing contracts will also drive the growth of licensing revenue in the future.

Key drivers of royalty revenue growth:

8-inch nodes

- Royalty revenue from PMIC will increase due to our success in contract renegotiation with the largest fabless IC design house in the U.S. Chips developed under the new contract are ready for volume production.
- Our MTP technology has been adopted by a large IDM in Europe. In addition, the second largest IC design company in the U.S. has taped out wireless charging chips that adopted our technology.
- A rising adoption of in-display fingerprint sensors at a growing number of OEMs.
- Fabless and IDMs are making progress in designing more IoT, automotive, and healthcare related ICs.

12-inch nodes

- The migration of DDI to TDDI and OLED IC continues. The growing popularity of TDDI and OLED will lead to the increase of royalty revenue from 40 and 55nm process platforms.
- Major IC design houses in Asia have adopted our IP for their 28nm consumer IC products. The increasing number of tape-outs of set-top box, multimedia IC, SSD controllers, and network-related IC on 28nm process technology will drive the growth of royalty revenue in the future.



Development of new applications:

- NeoFuse has been adopted on 25nm DRAM process technology for memory repair. In addition, one of the five licensing contract signed during the quarter was related to DRAM; therefore, we expect royalty revenue from NeoFuse to increase in the near future.
- NeoPUF is expected to be adopted for various security applications including RF, FPGA, portable POS machines, printer cartridges, IoT devices, and smart card. To facilitate the wide adoption of NeoPUF, we have formed strategic partnership with the world's leading semiconductor IP company.

Development of new technologies:

- We continue to partner with main foundries in the development of IPs at 5nm, 7nm, 12nm, and 14nm process platforms, as well as 22nm SOI process technology.
- We are currently developing a new memory technology with a top IDM company in the U.S.

Management Comments

eMemory has always focused on developing our technology on advanced nodes platforms and expanding the adoption of our technology on More than Moore process platforms with our partners for their future product development. We continue to see NeoFuse is gaining market share, which allow us to shift our reliance on smartphone related applications to other applications. This is a positive trend for our company's development. eMemory will continue to invest heavily in innovation to support long-term returns for shareholders.

Quarterly Financial Review

(NT \$ Thousand)

Revenue by Type	Q2 2018	Q1 2018	Q2 2017	Change (QoQ)	Change (YoY)	H1 2018	H1 2017	Change (YoY)
Licensing	101,283	114,540	134,140	-11.6%	-24.5%	215,823	208,286	3.6%
Royalty	200,790	259,926	198,080	-22.8%	1.4%	460,716	461,183	-0.1%
Total	302,073	374,466	332,220	-19.3%	-9.1%	676,539	669,469	1.1%

(US \$ Thousand)

Revenue by Type	Q2 2018	Q1 2018	Q2 2017	Change (QoQ)	Change (YoY)	H1 2018	H1 2017	Change (YoY)
Licensing	3,409	3,898	4,443	-12.5%	-23.3%	7,307	6,827	7.0%
Royalty	6,844	8,828	6,538	-22.5%	4.7%	15,672	14,904	5.2%
Total	10,253	12,726	10,981	-19.4%	-6.6%	22,979	21,731	5.7%

Revenue

- Total revenue
 - Total revenue for the second quarter decreased 19.3% sequentially and 9.1% from the comparable quarter last year to NT\$ 302.07 million.
- Licensing revenue
 - Quarterly revenue mix from licensing was approximately 33.5%. Revenue from licensing of NT \$101.28 million was down 11.6% sequentially and down 24.5% year-over year.



- Royalty revenue
 - Quarterly revenue mix from royalty was approximately 66.5%. Royalty revenue totaled NT\$ 200.79 million, a sequential decrease of 22.8% but an increase of 1.4% year-over-year.
 - 8-inch wafers accounted for 75.9% of the quarterly royalty revenue while 12-inch accounted for 24.1%.

Gross margin

Gross margin remained the same at 100%.

Operating expenses and operating margin

- Total operating expenses for the quarter was NT\$ 183.71 million and represented 60.8% of total revenue, up from 56.8% of total revenue in the prior year, due to decrease in total revenue.
- Operating expenses decreased 4.9% sequentially, and 2.6% year-over-year. The sequential decrease was due to decrease in R&D expenses while the decrease in operating expenses from the prior year primarily relates to reduction in employee bonus and director compensation expenses. Although R&D expenses for the quarter decreased by NT\$ 8.62 million from Q1 2018, R&D expenses for the first six months of 2018 remained relatively flat, at approximately 36.0% of total revenue, as compared to R&D expenses for six-months ended June 30, 2017.
- Operating margin for the quarter was 39.2%, decreased 9.2 percentage points from the prior quarter and 4.0 percentage points year-over year.

Non-operating income and income tax expense

- Non-operating income for the quarter decreased 18.6% from the comparable quarter last year and declined 0.5% sequentially to NT\$ 9.79 million. The sequential decrease of non-operating income was due to the timing of the receipt of annual NT\$ 9.00 million director compensation. This annual fee was received and recognized during Q2 2017 last year but was received and recognized during Q1 2018 this year.
- The second quarter effective tax rate of 12.5% was 0.4 percentage points lower than prior year.

Net Income and EPS

- Net income for the quarter was NT\$ 112.19 million, down 33.5% sequentially and 17.3% year-over-year.
- Earnings per share was NT\$ 1.48.

Current assets and current liabilities

- As of June 30, 2018, cash increased by NT\$ 228.05 million from December 31, 2017 to NT\$ 1,891.73 million. Total current assets including cash was NT\$ 2,069.91 million.
- Total current liabilities increased by NT\$ 562.48 million from December 31, 2017, mainly reflecting the accrual of \$568.37 million cash dividends.
- Net working capital was NT\$1,191.29 million and current ratio was 2.4x.

Cash flows

- During the first six months the year, net cash generated from operating activities totaled NT\$ 240.62 million, including NT\$ 319.26 million from income before income tax, NT



\$25.26 million from depreciation and amortization, and NT\$ 103.90 million used in other operating activities, which included tax payment of NT\$ 68.87 million.

- Net cash used in investing activities was NT\$ 16.30 million for the first six months of the year, primarily relate to capital expenditures and acquisition of intangible assets.
- Net cash generated from financing activities was NT\$ 2.88 million for the first six months of the year, mainly attributable to exercise of stock options by employees.
- As a result, cash increased by NT\$ 228.05 million to NT\$ 1,891.73 million from December 31, 2017 to June 30, 2018.

People

- As of June 30, 2018, eMemory had 244 full-time employees, which included 171 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.

Contacts

Heidi Chiu

Investor Relations

eMemory Technology Inc.

+886-3-5601168

ir@ememory.com.tw

-Financial Statements To Follow-

eMemory Technology Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)			June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
ASSETS							LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$1,891,730	70	\$1,663,684	69	\$1,790,370	70	Contract liabilities - current	\$ 38,703	2	\$ -	-	\$ -	-
Accounts receivable - net	127,030	5	82,457	4	93,582	4	Other payables	64,226	2	80,927	3	78,541	3
Accounts receivable - related parties	-	-	-	-	568	-	Bonuses payable to employees, directors and supervisors	166,459	6	133,625	6	149,378	6
Other receivables	295	-	238	-	410	-	Payables on equipment	92	-	5,189	-	886	-
Other receivables - related parties	246	-	577	-	-	-	Dividends payable	568,367	21	-	-	492,585	19
Prepayments	48,581	2	17,998	1	44,293	2	Current tax liabilities	38,170	1	61,476	3	35,251	2
Other current assets	2,023	-	2,023	-	2,920	-	Other current liabilities	2,598	-	34,922	1	29,205	1
Total current assets	<u>2,069,905</u>	<u>77</u>	<u>1,766,977</u>	<u>74</u>	<u>1,932,143</u>	<u>76</u>	Total current liabilities	<u>878,615</u>	<u>32</u>	<u>316,139</u>	<u>13</u>	<u>785,846</u>	<u>31</u>
NON-CURRENT ASSETS							NON-CURRENT LIABILITIES						
Financial assets at fair value through other comprehensive income - noncurrent	23,210	1	-	-	-	-	Net defined benefit liability - noncurrent	18,967	1	19,242	1	19,252	1
Financial assets at amortised cost - noncurrent	33,611	1	-	-	-	-	Guarantee deposits received	530	-	530	-	-	-
Financial assets measured at cost - noncurrent	-	-	8,406	-	9,939	-	Total non-current liabilities	<u>19,497</u>	<u>1</u>	<u>19,772</u>	<u>1</u>	<u>19,252</u>	<u>1</u>
Investments in debt instrument without active market - noncurrent	-	-	33,611	1	33,610	1	Total liabilities	<u>898,112</u>	<u>33</u>	<u>335,911</u>	<u>14</u>	<u>805,098</u>	<u>32</u>
Investment accounted for using equity method	7,938	-	10,393	-	12,984	1	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Property, plant and equipment	499,924	19	505,337	21	495,977	20	Ordinary shares	<u>757,908</u>	<u>28</u>	<u>757,823</u>	<u>31</u>	<u>757,823</u>	<u>30</u>
Intangible assets	63,297	2	62,430	3	59,231	2	Capital surplus	<u>409,137</u>	<u>15</u>	<u>427,496</u>	<u>18</u>	<u>414,867</u>	<u>16</u>
Deferred tax assets	1,801	-	2,108	-	1,985	-	Retained earnings						
Prepayments for equipment	1,971	-	11,493	1	-	-	Legal reserve	340,160	13	280,298	12	280,298	11
Refundable deposits	331	-	315	-	300	-	Special reserve	926	-	926	-	926	-
Total non-current assets	<u>632,083</u>	<u>23</u>	<u>634,093</u>	<u>26</u>	<u>614,026</u>	<u>24</u>	Unappropriated earnings	<u>353,647</u>	<u>13</u>	<u>598,616</u>	<u>25</u>	<u>287,157</u>	<u>11</u>
							Total retained earnings	<u>694,733</u>	<u>26</u>	<u>879,840</u>	<u>37</u>	<u>568,381</u>	<u>22</u>
							Other equity	(<u>57,902</u>)	(<u>2</u>)	-	-	-	-
							Total equity	<u>1,803,876</u>	<u>67</u>	<u>2,065,159</u>	<u>86</u>	<u>1,741,071</u>	<u>68</u>
TOTAL	<u>\$2,701,988</u>	<u>100</u>	<u>\$2,401,070</u>	<u>100</u>	<u>\$2,546,169</u>	<u>100</u>	TOTAL	<u>\$2,701,988</u>	<u>100</u>	<u>\$2,401,070</u>	<u>100</u>	<u>\$2,546,169</u>	<u>100</u>

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 June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE	\$302,073	100	\$332,220	100	\$676,539	100	\$669,469	100
OPERATING COSTS	-	-	-	-	-	-	-	-
GROSS PROFIT	<u>302,073</u>	<u>100</u>	<u>332,220</u>	<u>100</u>	<u>676,539</u>	<u>100</u>	<u>669,469</u>	<u>100</u>
OPERATING EXPENSES								
Selling and marketing expenses	27,609	9	32,782	10	55,078	8	60,420	9
General and administrative expenses	38,184	13	41,022	12	80,277	12	81,637	12
Research and development expenses	116,161	38	114,758	35	240,943	36	240,108	36
Expected credit loss	<u>1,752</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>609</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>183,706</u>	<u>61</u>	<u>188,562</u>	<u>57</u>	<u>376,907</u>	<u>56</u>	<u>382,165</u>	<u>57</u>
OPERATING INCOME	<u>118,367</u>	<u>39</u>	<u>143,658</u>	<u>43</u>	<u>299,632</u>	<u>44</u>	<u>287,304</u>	<u>43</u>
NON-OPERATING INCOME AND EXPENSES								
Other income	3,714	1	12,469	4	17,648	3	15,234	2
Other gains and losses	7,197	2	1,430	-	4,435	-	27,767	4
Share of loss of associates	(1,124)	-	(1,878)	-	(2,459)	-	(3,833)	-
Total non-operating income and expenses	<u>9,787</u>	<u>3</u>	<u>12,021</u>	<u>4</u>	<u>19,624</u>	<u>3</u>	<u>39,168</u>	<u>6</u>
PROFIT BEFORE INCOME TAX	128,154	42	155,679	47	319,256	47	326,472	49
INCOME TAX EXPENSE	<u>15,961</u>	<u>5</u>	<u>20,069</u>	<u>6</u>	<u>38,333</u>	<u>5</u>	<u>39,484</u>	<u>6</u>
NET PROFIT	112,193	37	135,610	41	280,923	42	286,988	43
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Unrealised gains from investments in equity instruments measured at fair value through other comprehensive income	<u>4,513</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>5,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$116,706</u>	<u>39</u>	<u>\$135,610</u>	<u>41</u>	<u>\$286,013</u>	<u>42</u>	<u>\$286,988</u>	<u>43</u>
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Company	\$112,193	37	\$135,610	41	\$280,923	42	\$286,988	43
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$112,193</u>	<u>37</u>	<u>\$135,610</u>	<u>41</u>	<u>\$280,923</u>	<u>42</u>	<u>\$286,988</u>	<u>43</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$116,706	39	\$135,610	41	\$286,013	42	\$286,988	43
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$116,706</u>	<u>39</u>	<u>\$135,610</u>	<u>41</u>	<u>\$286,013</u>	<u>42</u>	<u>\$286,988</u>	<u>43</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.48</u>		<u>\$ 1.79</u>		<u>\$ 3.71</u>		<u>\$ 3.79</u>	
Diluted	<u>\$ 1.48</u>		<u>\$ 1.78</u>		<u>\$ 3.69</u>		<u>\$ 3.77</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	Retained Earnings			Total Retained Earnings	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE, JANUARY 1, 2017	75,783	\$ 757,823	\$ 448,025	\$ 231,737	\$ 926	\$ 485,615	\$ 718,278	\$ -	\$ 1,924,126
Appropriations of 2016 earnings									
Legal reserve	-	-	-	48,561	-	(48,561)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(436,885)	(436,885)	-	(436,885)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	9,929	-	-	-	-	-	9,929
Issue of cash dividends from capital surplus	-	-	(55,700)	-	-	-	-	-	(55,700)
Net profit for the six months ended June 30, 2017	-	-	-	-	-	286,988	286,988	-	286,988
Total comprehensive income for the six months ended June 30, 2017	-	-	-	-	-	286,988	286,988	-	286,988
Share-based payments	-	-	12,613	-	-	-	-	-	12,613
BALANCE, JUNE 30, 2017	<u>75,783</u>	<u>\$ 757,823</u>	<u>\$ 414,867</u>	<u>\$ 280,298</u>	<u>\$ 926</u>	<u>\$ 287,157</u>	<u>\$ 568,381</u>	<u>\$ -</u>	<u>\$ 1,741,071</u>
BALANCE, JANUARY 1, 2018	75,783	\$ 757,823	\$ 427,496	\$ 280,298	\$ 926	\$ 598,616	\$ 879,840	\$ -	\$ 2,065,159
Effects of retrospective application and retrospective restatement	-	-	-	-	-	72,706	72,706	(62,992)	9,714
Equity at beginning of period after adjustments	75,783	757,823	427,496	280,298	926	671,322	952,546	(62,992)	2,074,873
Appropriations of 2017 earnings									
Legal reserve	-	-	-	59,862	-	(59,862)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(538,736)	(538,736)	-	(538,736)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	4	-	-	-	-	-	4
Issue of cash dividends from capital surplus	-	-	(29,631)	-	-	-	-	-	(29,631)
Net profit for the six months ended June 30, 2018	-	-	-	-	-	280,923	280,923	-	280,923
Other comprehensive income for the six months ended June 30, 2018	-	-	-	-	-	-	-	5,090	5,090
Total comprehensive income for the six months ended June 30, 2018	-	-	-	-	-	280,923	280,923	5,090	286,013
Issuance of ordinary shares under employee share options	8	85	2,794	-	-	-	-	-	2,879
Share-based payments	-	-	8,474	-	-	-	-	-	8,474
BALANCE, JUNE 30, 2018	<u>75,791</u>	<u>\$ 757,908</u>	<u>\$ 409,137</u>	<u>\$ 340,160</u>	<u>\$ 926</u>	<u>\$ 353,647</u>	<u>\$ 694,733</u>	<u>(\$ 57,902)</u>	<u>\$ 1,803,876</u>

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 319,256	\$ 326,472
Adjustments for:		
Depreciation expenses	18,855	15,583
Amortization expenses	6,402	5,336
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	609	(332)
Interest income	(5,929)	(4,900)
Dividend income	-	(1,050)
Share-based payments	8,474	12,613
Share of loss of associates	2,459	3,833
Gain on disposal of investments	(5)	(35,038)
Net (gain) loss on foreign currency exchange	(3,379)	3,958
Changes in operating assets and liabilities		
Accounts receivable	(42,653)	(30,183)
Accounts receivable - related parties	-	1,115
Other receivables - related parties	331	44
Prepayments	(23,048)	(22,806)
Other current assets	-	(1,435)
Contract liabilities	5,232	-
Other payables	(16,691)	(18,727)
Other current liabilities	1,147	5,285
Net defined benefit liability	(275)	(271)
Bonuses payable to employees, directors and supervisors	<u>32,834</u>	<u>39,404</u>
Cash generated from operations	303,619	298,901
Interest received	5,872	4,746
Income tax paid	(<u>68,867</u>)	(<u>26,309</u>)
Net cash generated from operating activities	<u>240,624</u>	<u>277,338</u>

(Continued)

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	<u>For the Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated at fair value through profit or loss	(\$ 31,000)	\$ -
Proceeds from disposal of financial assets designated at fair value through profit or loss	31,005	-
Purchase of available-for-sale financial assets	-	(10,000)
Proceeds from disposal of available-for-sale financial assets	-	10,001
Proceeds from disposal of financial assets measured at cost	-	36,570
Acquisition of property, plant and equipment	(9,021)	(13,763)
Increase in refundable deposits	(16)	-
Acquisition of intangible assets	(7,269)	(9,771)
Dividend received	<u>-</u>	<u>1,050</u>
Net cash (used in) generated from investing activities	(<u>16,301</u>)	<u>14,087</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits received	-	(415)
Exercise of employee share options	<u>2,879</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>2,879</u>	(<u>415</u>)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>844</u>	(<u>2,251</u>)
NET INCREASE IN CASH	228,046	288,759
CASH AT THE BEGINNING OF THE PERIOD	<u>1,663,684</u>	<u>1,501,611</u>
CASH AT THE END OF THE PERIOD	<u>\$ 1,891,730</u>	<u>\$ 1,790,370</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>