



Management Report for Third Quarter Fiscal 2019

Hsinchu, Taiwan, November 13th, 2019 – eMemory Technology Inc. (TPE : 3529) reported financial results for its fiscal quarter, which ended 30th September 2019.

Executive Summary

- Q3 2019 revenue was NT\$ 336.59 million, up 6.3% sequentially but down 14.4% year-over-year. Operating income increased 8.2% sequentially but decreased 26.3% year-over-year. EPS was NT\$ 1.62, up 4.5% sequentially but down 27.4% year-over-year. For 2019 Q1-Q3, revenue was down 2% and EPS down 6.2%.
- The decline of quarterly revenue was mainly due to DDI customers' inventory depletion compared to the same period of last year.
- We expect revenue to grow on a sequential basis and return to a growing trend in 2020, driven by increasing adoption rate of our IP into various applications, ie. OLED, PMIC, networking, multimedia, ISP, DRAM and security applications.

Financial Results

(Amounts in thousands of NT\$)

	Q3 2019	Q2 2019	Q3 2018	Change (QoQ)	Change (YoY)
Revenue	336,587	316,541	393,225	6.3%	-14.4%
Gross Margin	100%	100%	100%	-	-
Operating Expenses	197,399	187,889	204,342	5.1%	-3.4%
Operating Income	139,188	128,652	188,883	8.2%	-26.3%
Operating Margin	41.4%	40.6%	48.0%	0.8ppts	-6.6ppts
Net Income	120,170	115,098	168,572	4.4%	-28.7%
Net Margin	35.7%	36.4%	42.9%	-0.7ppts	-7.2ppts
EPS (Unit: NTD)	1.62	1.55	2.23	4.5%	-27.4%
ROE	29.1%	29.0%	34.8%	0.1ppts	-5.7ppts

(Amounts in thousands of NT\$)

	Q1-Q3 2019	Q1-Q3 2018	Change (YoY)
Revenue	1,048,189	1,069,764	-2.0%
Gross Margin	100%	100%	-
Operating Expenses	586,376	581,249	0.9%
Operating Income	461,813	488,515	-5.5%
Operating Margin	44.1%	45.7%	-1.6ppts
Net Income	412,419	449,495	-8.2%
Net Margin	39.3%	42.0%	-2.7ppts
EPS (Unit: NTD)	5.56	5.93	-6.2%
ROE	33.3%	30.9%	2.4ppts

Revenue Analysis

(Amounts in thousands of NT\$)

	Q3 2019	Q2 2019	Q3 2018	Change (QoQ)	Change (YoY)
Licensing	103,689	104,806	109,257	-1.1%	-5.1%
Royalty	232,898	211,735	283,968	10.0%	-18.0%
Total	336,587	316,541	393,225	6.3%	-14.4%

(Amounts in thousands of NT\$)

	Q1-Q3 2019	Q1-Q3 2018	Change (YoY)
Licensing	314,319	325,080	-3.3%
Royalty	733,870	744,684	-1.5%
Total	1,048,189	1,069,764	-2.0%

Royalty revenue analysis by wafer size (8-inch vs 12-inch)

Wafer Size	Q3 2019			Q1-Q3 2019	
	% of Q3	Change (QoQ)	Change (YoY)	% of Q1-Q3	Change (YoY)
8 inch	66.9%	-2.7%	-6.6%	69.2%	1.7%
12 inch	33.1%	49.5%	-34.2%	30.8%	-7.9%

- Royalty contribution of QoQ from 12-inch increased mainly due to semiannual payments from two foundries, but down year-over-year due to DDI inventory adjustment.

Revenue analysis by technology

Technology	Q3 2019								
	Total Revenue			Licensing Revenue			Royalty Revenue		
	% of Q3 Revenue	Change (QoQ)	Change (YoY)	% of Q3 Licensing	Change (QoQ)	Change (YoY)	% of Q3 Royalty	Change (QoQ)	Change (YoY)
NeoBit	63.8%	18.8%	-18.7%	35.0%	30.9%	-1.1%	76.6%	16.6%	-21.6%
NeoFuse	28.2%	-16.4%	28.5%	46.4%	-26.9%	25.8%	20.1%	-2.2%	31.4%
NeoPUF	0.0%	-100.0%	0.0%	0.0%	-100.0%	0.0%	0.0%	0.0%	0.0%
NeoEE	5.4%	5.4%	-48.9%	11.3%	25.0%	-27.8%	2.8%	-17.9%	-66.5%
NeoMTP	2.6%	104.5%	-54.9%	7.3%	458.1%	-58.0%	0.5%	-58.0%	-16.4%

Technology	Q1-Q3 2019					
	Total Revenue		Licensing Revenue		Royalty Revenue	
	% of Q1-Q3 Revenue	Change (YoY)	% of Q1-Q3 Licensing	Change (YoY)	% of Q1-Q3 Royalty	Change (YoY)
NeoBit	62.7%	-8.5%	26.8%	-21.0%	78.1%	-6.3%
NeoFuse	29.3%	50.1%	56.8%	34.0%	17.6%	80.2%
NeoPUF	0.1%	100.0%	0.2%	100.0%	0.0%	0.0%
NeoEE	5.9%	-35.6%	11.6%	-9.9%	3.5%	-54.2%
NeoMTP	2.0%	-59.0%	4.6%	-67.6%	0.8%	12.9%

- NeoBit : OTP technology covers from 0.35um to 55nm.
- NeoFuse : OTP technology covers mainly from 0.18um to 5nm.
- NeoPUF : OTP technology covers mainly from 0.13um to 28nm.
- NeoEE : MTP technology covers from 0.18um to 80nm, allowing up to 100K rewritable times with zero additional masking layers.
- NeoMTP : MTP technology covers from 0.18um to 55nm, offering high density memory with 1K rewritable times with zero additional masking layers.

Key Business Developments

Licensing

- Technology License
 - 4 licensing contracts were signed (2 NeoBit and 2 NeoFuse) during this quarter.
 - As of September 30th, 2019, we have technologies under development for the adoption of 100 different process platforms, ranging from 0.25um to 5nm.

Development of Key Technology on 12-inch Nodes

	5/6nm	7/10nm	12/16nm	28nm	40nm	55/65nm	80/90nm	0.13/0.11um	0.18um	Total
Qualified	0	1	3	18	11	20	13	13	1	80
Developing	1	2	3	16	7	14	10	7	0	60

- Design License
 - A total of 124 product tape-outs occurred in the third quarter of 2019.
 - 14 tape-outs at 22nm/25nm/28nm for sensor-related, MCU, multi-media, network IC, USB, HDMI, and etc.
 - 9 tape-outs at 40nm for sensor-related, OLED driver, and etc.
 - 6 tape-outs at 55nm/65nm for LCD driver, MCU, TDDI, multi-media, and audio.
 - 9 tape-outs at 80nm/90nm for LCD driver, OLED driver, TDDI, and motor driver.
 - 17 tape-outs at 0.13um for PMIC, LCD driver, MCU, OLED driver, TDDI, and network IC.
 - 61 tape-outs at 0.18um for PMIC, LCD driver, sensor-related, MCU, network IC, LED driver, fingerprint, USB, motor driver, oscillator, and etc.
 - 5 tape-outs at 0.25um for sensor-related, and LED driver.
 - 3 tape-outs at 0.35um for LCD driver, sensor-related applications, and fingerprint sensor.
 - As of September 30th, 2019, eMemory's cumulative number of design licenses has increased to 4,666—a direct result of our ongoing effort in expanding and diversifying our technologies for adoption in a wide range of applications.

Future growth drivers

Licensing

- NeoFuse and NeoPUF will continue to drive licensing growth next year as increasing platforms among foundries and more comprehensive portfolio of PUF related IP portfolio.

Royalty

- We expect a strong growth of OLED and PMIC in 2020, due to 5G, increasing adoption rate and higher royalty as manufactured in more advance process.
- New applications such as networking, multimedia (i.e. DTV, STB, surveillance, ISP) and DRAM will drive the royalty growth in the coming years.

New Application Development

- NeoPUF has made a distinctive progress in the most advanced process SoC, ultra-low power processor, IoT related application and embedded flash platform.
- In addition to ISP application, NeoFuse will be used in CIS process to provide highly intelligent image recognition applications. We expect the contribution to our revenue starting from next year.



New Technology Development

- In addition to 5nm technology platform, ReRAM, and the largest IP company cooperation project reported in the previous quarters, technology platform development of 6nm and 5nm plus (N5P) have been kicked off, at the same pace with our leading foundry partner.
- For security IP development, the latest PUFtrng, True Random Number Generator was proved to be the fastest and the lowest power random number generator in the industry.

Financial Review

Gross margin

Gross margin remained at 100%.

Operating expenses and operating margin

- The total operating expense in Q3 2019 was NT\$ 197.40 million and represented 58.6% of the total revenue, which increased from 52.0% of the total revenue in the prior year.
- Operating expenses increased 5.1% sequentially but decreased 3.4% year-over-year. The sequential increase was mainly related to the increment of the number of employees leading to salary and other personnel bonuses expenditures, while the year-over-year decrease was due the reduction in employees' and directors' compensation.
- Operating margin for the quarter was 41.4%, up by 0.8 percentage points from the prior quarter but down 6.6 percentage points year-over-year.

Non-operating income and income tax expense

- Non-operating income for the quarter was NT\$ 1.39 million, which decreased 69.9% sequentially and 58.4% year-over-year. The sequential decrease was primarily due to the loss in exchange rate caused by the appreciation of NT\$.
- Q3 2019 effective tax rate of 14.5% was 2.2 percentage points higher than the prior year.

Net Income and EPS

- Net income for the quarter was NT\$ 120.17 million, an increase of 4.4% sequentially but a decrease of 28.7% year-on-year.
- Earnings per share was NT\$ 1.62 in Q3 2019.

Current assets and current liabilities

- As of September 30th, 2019, cash decreased by NT\$ 208.35 million from that of December 31st, 2018 to NT\$ 1,093.65 million. The decrease was mainly due to the payment of cash dividends causing current assets to decrease. Total current assets including cash were NT\$ 1,294.35 million.
- Total current liabilities decreased by NT\$ 37.06 million from December 31st, 2018.
- Net working capital was NT\$981.64 million and the current ratio was 4.14x.



Cash flows

- As of September 30th, 2019, net cash generated from operating activities totaled NT\$ 408.66 million, including NT\$ 477.03 million from income before income tax, NT\$ 41.16 million from depreciation and amortization, and NT\$ 109.53 million used in other operating activities, which included tax payment of NT\$ 95.93 million.
- Net cash used in investing activities was NT\$ 34.59 million at the end of September 30th, 2019, primarily related to capital expenditures and acquisition of intangible assets.
- Net cash used in financing activities decreased NT\$ 117.76 million year-on-year to NT\$ 582.87 million at the end of September 30th, 2019, mainly attributable to share repurchases in the prior year.
- As a result, cash decreased by NT\$ 275.21 million to NT\$ 1,093.65 million from September 30th, 2018 to September 30th, 2019.

Employee

- As of September 30th, 2019, eMemory has 264 full-time employees, including 180 R&D engineers.

Cautionary Statement

This report contains forward-looking statements, which are subject to risk factors associated with semiconductor and intellectual property business. We believe that the expectations reflected in these statements are reasonable. However, 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 in 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. Unless 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.

Contact

Fiona Lai

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)

	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)			September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
ASSETS							LIABILITIES AND EQUITY						
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$1,093,653	57	\$1,302,003	62	\$1,368,867	63	Contract liabilities - current	\$ 33,983	2	\$ 37,822	2	\$ 38,308	2
Accounts receivable - net	145,610	8	158,335	8	126,356	6	Other payables	88,483	5	94,104	5	95,204	4
Other receivables	255	-	225	-	210	-	Bonuses payable to employees and directors	125,808	7	138,092	7	132,651	6
Other receivables - related parties	469	-	251	-	276	-	Payables on equipment	882	-	6,241	-	120	-
Prepayments	50,471	3	19,889	1	40,049	2	Current tax liabilities	58,726	3	71,897	3	61,834	3
Other current assets	3,891	-	2,902	-	3,065	-	Lease liabilities - current	3,103	-	-	-	-	-
Total current assets	<u>1,294,349</u>	<u>68</u>	<u>1,483,605</u>	<u>71</u>	<u>1,538,823</u>	<u>71</u>	Other current liabilities	1,725	-	1,616	-	1,572	-
							Total current liabilities	<u>312,710</u>	<u>17</u>	<u>349,772</u>	<u>17</u>	<u>329,689</u>	<u>15</u>
NON-CURRENT ASSETS							NON-CURRENT LIABILITIES						
Financial assets at fair value through other comprehensive income - noncurrent	15,209	1	19,180	1	20,416	1	Lease liabilities - noncurrent	5,028	-	-	-	-	-
Financial assets at amortized cost - noncurrent	33,612	2	33,612	2	33,611	2	Net defined benefit liabilities - noncurrent	19,918	1	20,334	1	18,824	1
Investment accounted for using equity method	6,356	-	6,046	-	6,869	-	Guarantee deposits received	530	-	530	-	530	-
Property, plant and equipment	479,979	25	491,533	23	493,423	23	Total non-current liabilities	<u>25,476</u>	<u>1</u>	<u>20,864</u>	<u>1</u>	<u>19,354</u>	<u>1</u>
Right-of-use assets	8,070	-	-	-	-	-	Total liabilities	<u>338,186</u>	<u>18</u>	<u>370,636</u>	<u>18</u>	<u>349,043</u>	<u>16</u>
Intangible assets	69,462	4	67,162	3	64,242	3							
Deferred tax assets	2,677	-	2,708	-	2,367	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Refundable deposits	349	-	331	-	331	-	Ordinary shares	758,314	40	757,908	36	757,908	35
Total non-current assets	<u>615,714</u>	<u>32</u>	<u>620,572</u>	<u>29</u>	<u>621,259</u>	<u>29</u>	Capital surplus	402,697	21	416,537	20	412,837	19
							Retained earnings						
							Legal reserve	401,471	21	340,160	16	340,160	16
							Special reserve	61,932	3	926	-	926	-
							Unappropriated earnings	417,604	22	684,180	32	522,219	24
							Total retained earnings	<u>881,007</u>	<u>46</u>	<u>1,025,266</u>	<u>48</u>	<u>863,305</u>	<u>40</u>
							Other equity	(65,903)	(4)	(61,932)	(3)	(60,696)	(3)
							Treasury shares	(404,238)	(21)	(404,238)	(19)	(162,315)	(7)
							Total equity	<u>1,571,877</u>	<u>82</u>	<u>1,733,541</u>	<u>82</u>	<u>1,811,039</u>	<u>84</u>
TOTAL	<u>\$1,910,063</u>	<u>100</u>	<u>\$2,104,177</u>	<u>100</u>	<u>\$2,160,082</u>	<u>100</u>	TOTAL	<u>\$1,910,063</u>	<u>100</u>	<u>\$2,104,177</u>	<u>100</u>	<u>\$2,160,082</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 September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE	\$336,587	100	\$393,225	100	\$1,048,189	100	\$1,069,764	100
OPERATING COSTS	-	-	-	-	-	-	-	-
GROSS PROFIT	<u>336,587</u>	<u>100</u>	<u>393,225</u>	<u>100</u>	<u>1,048,189</u>	<u>100</u>	<u>1,069,764</u>	<u>100</u>
OPERATING EXPENSES								
Selling and marketing expenses	30,310	9	31,336	8	89,369	8	86,414	8
General and administrative expenses	39,113	12	42,705	11	122,519	12	122,982	12
Research and development expenses	125,049	37	128,106	33	377,923	36	369,049	34
Expected credit loss (gain)	<u>2,927</u>	<u>1</u>	<u>2,195</u>	<u>-</u>	<u>(3,435)</u>	<u>-</u>	<u>2,804</u>	<u>-</u>
Total operating expenses	<u>197,399</u>	<u>59</u>	<u>204,342</u>	<u>52</u>	<u>586,376</u>	<u>56</u>	<u>581,249</u>	<u>54</u>
OPERATING INCOME	<u>139,188</u>	<u>41</u>	<u>188,883</u>	<u>48</u>	<u>461,813</u>	<u>44</u>	<u>488,515</u>	<u>46</u>
NON-OPERATING INCOME AND EXPENSES								
Other income	3,723	1	4,358	1	16,483	1	22,006	2
Other gains and losses	(1,099)	-	46	-	2,236	-	4,481	-
Finance costs	(43)	-	-	-	(140)	-	-	-
Share of loss of associates	<u>(1,196)</u>	<u>-</u>	<u>(1,072)</u>	<u>-</u>	<u>(3,361)</u>	<u>-</u>	<u>(3,531)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,385</u>	<u>1</u>	<u>3,332</u>	<u>1</u>	<u>15,218</u>	<u>1</u>	<u>22,956</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	140,573	42	192,215	49	477,031	45	511,471	48
INCOME TAX EXPENSE	<u>20,403</u>	<u>6</u>	<u>23,643</u>	<u>6</u>	<u>64,612</u>	<u>6</u>	<u>61,976</u>	<u>6</u>
NET PROFIT	120,170	36	168,572	43	412,419	39	449,495	42
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss								
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	<u>89</u>	<u>-</u>	<u>(2,794)</u>	<u>(1)</u>	<u>(3,971)</u>	<u>-</u>	<u>2,296</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$120,259</u>	<u>36</u>	<u>\$165,778</u>	<u>42</u>	<u>\$408,448</u>	<u>39</u>	<u>\$451,791</u>	<u>42</u>
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Company	\$120,170	36	\$168,572	43	\$412,419	39	\$449,495	42
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$120,170</u>	<u>36</u>	<u>\$168,572</u>	<u>43</u>	<u>\$412,419</u>	<u>39</u>	<u>\$449,495</u>	<u>42</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$120,259	36	\$165,778	42	\$408,448	39	\$451,791	42
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$120,259</u>	<u>36</u>	<u>\$165,778</u>	<u>42</u>	<u>\$408,448</u>	<u>39</u>	<u>\$451,791</u>	<u>42</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.62</u>		<u>\$ 2.23</u>		<u>\$ 5.56</u>		<u>\$ 5.93</u>	
Diluted	<u>\$ 1.61</u>		<u>\$ 2.22</u>		<u>\$ 5.53</u>		<u>\$ 5.90</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		Total	Other Equity Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	Total Equity
	Shares (In Thousands)	Amount			Special Reserve	Unappropriated Earnings				
BALANCE, JANUARY 1, 2018	75,783	\$ 757,823	\$ 427,496	\$ 280,298	\$ 926	\$ 671,322	\$ 952,546	(\$ 62,992)	\$ -	\$ 2,074,873
Appropriation of 2017 earnings										
Legal reserve	-	-	-	59,862	-	(59,862)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(538,736)	(538,736)	-	-	(538,736)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	7	-	-	-	-	-	-	7
Issuance of cash dividends from capital surplus	-	-	(29,631)	-	-	-	-	-	-	(29,631)
Net profit for the nine months ended September 30, 2018	-	-	-	-	-	449,495	449,495	-	-	449,495
Other comprehensive income for the nine months ended September 30, 2018	-	-	-	-	-	-	-	2,296	-	2,296
Total comprehensive income for the nine months ended September 30, 2018	-	-	-	-	-	449,495	449,495	2,296	-	451,791
Issuance of ordinary shares under employee share options	8	85	2,794	-	-	-	-	-	-	2,879
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(162,315)	(162,315)
Share-based payment	-	-	12,171	-	-	-	-	-	-	12,171
BALANCE, SEPTEMBER 30, 2018	<u>75,791</u>	<u>\$ 757,908</u>	<u>\$ 412,837</u>	<u>\$ 340,160</u>	<u>\$ 926</u>	<u>\$ 522,219</u>	<u>\$ 863,305</u>	<u>(\$ 60,696)</u>	<u>(\$ 162,315)</u>	<u>\$ 1,811,039</u>
BALANCE, JANUARY 1, 2019	75,791	\$ 757,908	\$ 416,537	\$ 340,160	\$ 926	\$ 684,180	\$ 1,025,266	(\$ 61,932)	(\$ 404,238)	\$ 1,733,541
Appropriation of 2018 earnings										
Legal reserve	-	-	-	61,311	-	(61,311)	-	-	-	-
Special reserve	-	-	-	-	61,006	(61,006)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(556,678)	(556,678)	-	-	(556,678)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	3,671	-	-	-	-	-	-	3,671
Issuance of cash dividends from capital surplus	-	-	(37,112)	-	-	-	-	-	-	(37,112)
Net profit for the nine months ended September 30, 2019	-	-	-	-	-	412,419	412,419	-	-	412,419
Other comprehensive income for the nine months ended September 30, 2019	-	-	-	-	-	-	-	(3,971)	-	(3,971)
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	-	-	412,419	412,419	(3,971)	-	408,448
Issuance of ordinary shares under employee share options	40	406	12,894	-	-	-	-	-	-	13,300
Share-based payment	-	-	6,707	-	-	-	-	-	-	6,707
BALANCE, SEPTEMBER 30, 2019	<u>75,831</u>	<u>\$ 758,314</u>	<u>\$ 402,697</u>	<u>\$ 401,471</u>	<u>\$ 61,932</u>	<u>\$ 417,604</u>	<u>\$ 881,007</u>	<u>(\$ 65,903)</u>	<u>(\$ 404,238)</u>	<u>\$ 1,571,877</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	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 477,031	\$ 511,471
Adjustments for:		
Depreciation expenses	30,205	28,084
Amortization expenses	10,959	9,741
Expected credit (gain) loss	(3,435)	2,804
Interest on lease liabilities	140	-
Interest income	(7,537)	(8,493)
Dividend income	(291)	(943)
Share-based payments	6,707	12,171
Share of loss of associates	3,361	3,531
Gain on disposal of investments	(95)	(79)
Net gain on foreign currency exchange	(725)	(544)
Changes in operating assets and liabilities		
Accounts receivable	16,437	(46,291)
Other receivables	(48)	-
Other receivables - related parties	(218)	301
Prepayments	(12,409)	(11,472)
Other current assets	(989)	(1,042)
Contract liabilities	(3,839)	4,837
Other payables	(5,629)	(12,882)
Other current liabilities	109	121
Net defined benefit liabilities	(416)	(418)
Bonuses payable to employees and directors	(12,284)	(974)
Cash generated from operations	497,034	489,923
Interest received	7,555	8,521
Income tax paid	(95,925)	(72,456)
Net cash generated from operating activities	<u>408,664</u>	<u>425,988</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	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(\$ 592,000)	(\$ 600,000)
Proceeds from disposal of financial assets at fair value through profit or loss	592,095	600,079
Acquisition of property, plant and equipment	(21,698)	(9,750)
Increase in refundable deposits	(18)	(16)
Acquisition of intangible assets	(13,259)	(11,553)
Dividend received	291	943
Net cash used in investing activities	<u>(34,589)</u>	<u>(20,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of lease liabilities	(2,251)	-
Dividend paid	(593,780)	(568,353)
Exercise of employee share options	13,300	2,879
Payments for buy-back of ordinary shares	-	(135,160)
Interest paid	(140)	-
Net cash used in financing activities	<u>(582,871)</u>	<u>(700,634)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>446</u>	<u>126</u>
NET DECREASE IN CASH	(208,350)	(294,817)
CASH AT THE BEGINNING OF THE PERIOD	<u>1,302,003</u>	<u>1,663,684</u>
CASH AT THE END OF THE PERIOD	<u>\$ 1,093,653</u>	<u>\$ 1,368,867</u>

(Concluded)

Notice to Readers

The above financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the previously mentioned 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 financial statements shall prevail. For the complete financial statements in Chinese version, please refer to MOPS: <http://mops.twse.com.tw/mops/web/index>