



Hollysys Automation Technologies Ltd.

FOR IMMEDIATE RELEASE

**Hollysys Automation Technologies Reports Unaudited
Financial Results for the First Quarter Ended September 30, 2018**

First Quarter of Fiscal Year 2019 Financial Highlights

- **Non-GAAP net income attributable to Hollysys** was \$28.1 million, an increase of 27.9% compared to the comparable prior year period.
- **Total revenues** were \$138.7 million, an increase of 20.1% compared to the comparable prior year period.
- **Non-GAAP gross margin** was at 37.2%, compared to 36.6% for the comparable prior year period.
- **Non-GAAP diluted EPS** were at \$0.46, an increase of 27.8% compared to the comparable prior year period.
- **Net cash provided by operating activities** was \$36.6 million for the current quarter.
- **DSO** of 170 days, compared to 196 days for the comparable prior year period.
- **Inventory turnover days** of 51 days, compared to 61 days for the comparable prior year period.

Beijing, China – November 13, 2018 – Hollysys Automation Technologies Ltd. (NASDAQ: HOLI) ("Hollysys" or the "Company"), a leading provider of automation and control technologies and applications in China, today announced its unaudited financial results for fiscal year 2019 first quarter ended September 30, 2018 (see attached tables). The management of Hollysys, stated:

Industrial automation business recorded a 0.4% YOY growth in revenue, at \$57.7 million. New contract recorded a 9.9% YOY growth at \$80.2 million. We continued to maintain our share in high-end power industry, to execute the low-to-high end market expansion strategy in chemical and petrochemical industry, and to build and maintain our leadership in other verticals. In power, major contracts we signed include DCS solution for Guohua Jinjie 2*660MW power units and Shenhua Shengli 2*660 MW power units. Contract growth in chemical and petrochemical remained healthy. Major contracts include additional SIS contract for the milestone Zhong'an United Coal Chemical Project and additional DCS contract for SINOPEC's p-xylene project. In addition to the effort in gaining and maintaining market share in various industries, the company is paying adequate attention to the intelligence manufacturing based on sizable customer we have accumulated through decades, as it is a valuable asset for our long term sustainable growth. Leveraging our consistent emphasis on R&D, we continue to provide both regular and value-added services to our customers and to accompany them along the cause of better productivity. Our widespread national service network enables us to stay closer to the customers, to respond faster and to understand better.

Rail business recorded a 43.1% YOY growth in revenue at \$50.4 million, while new contract increased sharply YOY by 866.0%, at \$71.5 million. In high-speed rail business, new ATP contracts were signed this quarter, while CRC

has published the bidding notice in mid-October for another 320 sets of ATP. Intake of heavy maintenance contracts are gradually seen as the ATPs are approaching their first 10 years maintenance cycle. In subway business, we signed SCADA contracts on Shenzhen subway line 2 and line 8. Going forward, we will continue to strengthen our marketing capacity through reviewing and updating strategic partnership and improving local service network coverage for both high-speed rail and subway business. Management team will adhere to the diversity strategy to create revenue stream from more new products and services, and to maintain a stable and healthy growth into the future.

In oversea business, we continued to seek opportunities in industrial automation business through EPC projects and direct sales. Contracts were signed on DCS, DEH, BATCH, instrument integration etc. solution with customers from India and Southeast Asia in coal fire, thermal power, chemical and construction material, etc. M&E business, performed by Concord and Bond, recorded a 34.2% YOY growth in revenue, at \$30.6 million, and a 32.0% YOY growth in new contract, at \$14.8 million. M&E will continue to act as the pioneer of internationalization for Hollysys, with growing coordination to be built in between M&E and domestic business. Meanwhile, the economic and political circumstances in South East Asia and Middle East will continue to be closely followed.

The Quarter Ended September 30, 2018 Unaudited Financial Results Summary

To facilitate a clear understanding of Hollysys' operational results, a summary of unaudited non-GAAP financial results is shown as below:

| | Three months ended | | |
|---|--------------------|--------------|-------------|
| | Sep 30, 2018 | Sep 30, 2017 | % Change |
| Revenues | \$ 138,719 | 115,510 | 20.1% |
| Integrated contract revenue | \$ 116,650 | 95,690 | 21.9% |
| Products sales | \$ 8,040 | 9,460 | (15.0)% |
| Service rendered | \$ 14,029 | 10,360 | 35.4% |
| Cost of revenues | \$ 87,178 | 73,238 | 19.0% |
| Gross profit | \$ 51,541 | 42,272 | 21.9% |
| Total operating expenses | \$ 21,501 | 19,205 | 12.0% |
| Selling | \$ 7,709 | 6,698 | 15.1% |
| General and administrative | \$ 8,570 | 10,957 | (21.8)% |
| Research and development | \$ 8,769 | 8,631 | 1.6% |
| VAT refunds and government subsidies | \$ (3,547) | (7,081) | (49.9)% |
| Income from operations | \$ 30,040 | 23,067 | 30.2% |
| Other income, net | \$ 558 | 439 | 27.1% |
| Foreign exchange loss | \$ (123) | (1,228) | 90.0% |
| Share of net income of equity investees | \$ 98 | 935 | (89.5)% |
| Dividend income from a cost investee | \$ - | 1,152 | (100.0)% |
| Interest income | \$ 3,099 | 1,476 | 110.0% |
| Interest expenses | \$ (106) | (137) | (22.6)% |
| Income tax expenses | \$ 5,455 | 3,736 | 46.0% |
| Net income attributable to non-controlling interests | \$ 46 | 33 | 39.4% |
| Non-GAAP net income attributable to Hollysys Automation Technologies Ltd. | \$ 28,065 | 21,935 | 27.9% |
| Non-GAAP basic EPS | \$ 0.46 | 0.36 | 27.8% |

| | | | | |
|---|----|------------|------------|---------|
| Non-GAAP diluted EPS | \$ | 0.46 | 0.36 | 27.8% |
| Share-based compensation expenses | \$ | 84 | 392 | (78.6)% |
| Amortization of acquired intangible assets | \$ | 80 | 179 | (55.3)% |
| GAAP Net income attributable to Hollysys Automation Technologies Ltd. | \$ | 27,901 | 21,364 | 30.6% |
| GAAP basic EPS | \$ | 0.46 | 0.35 | 31.4% |
| GAAP diluted EPS | \$ | 0.46 | 0.35 | 31.4% |
| Basic weighted average common shares outstanding | | 60,448,111 | 60,425,631 | 0.0% |
| Diluted weighted average common shares outstanding | | 61,263,566 | 61,261,417 | 0.0% |

Operational Results Analysis for the Quarter Ended September 30, 2018

Comparing to the first quarter of the prior fiscal year, the **total revenues** for the three months ended September 30, 2018 increased from \$115.5 million to \$138.7 million, representing an increase of 20.1%. Broken down by the revenue types, integrated contracts revenue increased by 21.9% to \$116.7 million, products sales revenue decreased by 15.0% to \$8.0 million, and services revenue increased by 35.4% to \$14.0 million.

The Company's **total revenues** can also be presented in segments as shown in the following chart:

(In USD thousands)

| | Three months ended Sep 30, | | | |
|------------------------------------|----------------------------|--------------------|----------------|--------------------|
| | 2018 | | 2017 | |
| | \$ | % to Total Revenue | \$ | % to Total Revenue |
| Industrial Automation | 57,720 | 41.6% | 57,481 | 49.7% |
| Rail Transportation Automation | 50,368 | 36.3% | 35,197 | 30.5% |
| Mechanical and Electrical Solution | 30,631 | 22.1% | 22,832 | 19.8% |
| Total | 138,719 | 100.0% | 115,510 | 100.0% |

Overall gross margin excluding non-cash amortization of acquired intangibles (non-GAAP gross margin) was 37.2% for the three months ended September 30, 2018, as compared to 36.6% for the same period of the prior year. **The non-GAAP gross margin for integrated contracts, product sales, and services rendered** were 30.8%, 75.0% and 67.9% for the three months ended September 30, 2018, as compared to 29.3%, 71.8% and 71.6% for the same period of the prior year respectively. The gross margin fluctuation was mainly due to the different revenue mix with different margin. **The GAAP overall gross margin** which includes non-cash amortization of acquired intangibles was 37.1% for the three months ended September 30, 2018, as compared to 36.4% for the same period of the prior year. **The GAAP gross margin for integrated contracts, product sales, and service rendered** were 30.8%, 75.0% and 67.9% for the three months ended September 30, 2018, as compared to 29.1%, 71.8% and 71.6% for the same period of the prior year respectively.

Selling expenses were \$7.7 million for the three months ended September 30, 2018, representing an increase of \$1.0 million or 15.1% compared to \$6.7 million for the same quarter of the prior year, mainly due to increased sales activities. Presented as a percentage of total revenues, selling expenses were 5.6% and 5.8% for the three months ended September 30, 2018, and 2017, respectively.

General and administrative expenses, excluding non-cash share-based compensation expenses (non-GAAP G&A expenses), were \$8.6 million for the quarter ended September 30, 2018, representing a decrease of \$2.4 million or 19.3% compared to \$11.0 million for the same quarter of the prior year, mainly due to decreased bad debt allowance. Presented as a percentage of total revenues, non-GAAP G&A expenses were 6.2% and 9.5% for quarters ended September 30, 2018 and 2017 respectively. **The GAAP G&A expenses** which include the non-cash share-based compensation expenses were \$8.9 million and \$11.3 million for the three months ended September 30, 2018 and 2017, respectively.

Research and development expenses were \$8.8 million for the three months ended September 30, 2018, representing an increase of \$0.2 million or 1.6% compared to \$8.6 million for the same quarter of the prior year. Presented as a percentage of total revenues, R&D expenses were 6.3% and 7.5% for the quarter ended September 30, 2018 and 2017, respectively.

The VAT refunds and government subsidies were \$3.5 million for three months ended September 30, 2018, as compared to \$7.1 million for the same period in the prior year, representing a \$3.6 million or 49.9% decrease, which was primarily due to decrease of the VAT refunds.

The income tax expenses and the effective tax rate were \$5.5 million and 16.3% for the three months ended September 30, 2018, as compared to \$3.7million and 14.9% for comparable prior year period.

The non-GAAP net income attributable to Hollysys, which excludes the non-cash share-based compensation expenses calculated based on grant-date fair value of shares or options granted, amortization of acquired intangible assets, and fair value adjustments of a bifurcated derivative, was \$28.1 million or \$0.46 per diluted share based on 61.3 million diluted weighted average common shares outstanding for the three months ended September 30, 2018. This represents a 27.9% increase over the \$21.9 million or \$0.36 per share based on 61.3 diluted weighted average common million shares outstanding reported in the comparable prior year period. **On a GAAP basis, net income attributable to Hollysys** was \$27.9 million or \$0.46 per diluted share representing an increase of 20.6% over the \$21.4 million or \$0.35 per diluted share reported in the comparable prior year period.

Contracts and Backlog Highlights

Hollysys achieved \$166.5 million new contracts for the three months ended September 30, 2018. And the backlog as of September 30, 2018 was \$516.2 million. The detailed breakdown of the new contracts and backlog by segments is shown below:

(In USD thousands)

| New contracts achieved | Backlog |
|--|--------------------|
| for the three months ended Sep 30, 2018 | as of Sep 30, 2018 |

| | \$ | % to Total Contract | \$ | % to Total Backlog |
|-------------------------------------|----------------|------------------------|----------------|-----------------------|
| Industrial Automation | 80,247 | 48.1% | 176,492 | 34.2% |
| Rail Transportation | 71,530 | 43.0% | 244,663 | 47.4% |
| Mechanical and Electrical Solutions | 14,755 | 8.9% | 95,011 | 18.4% |
| Total | 166,532 | 100.00% | 516,166 | 100% |

Cash Flow Highlights

For the three months ended September 30, 2018, the total **net cash inflow** was \$11.2 million. The **net cash provided by operating activities** was \$36.6 million. The **net cash used in investing activities** was \$17.0 million, mainly consisted of \$48.4 million time deposits placed with banks, which was partially offset by \$34.2 million maturity of time deposits. The **net cash used in financing activities** was \$0.1 million.

Balance Sheet Highlights

The total amount of **cash and cash equivalents** were \$276.9 million, \$265.7 million, and \$244.8 million as of September 30, 2018, June 30, 2018 and September 30, 2017, respectively.

For the three months ended September 30, 2018, DSO was 170 days, as compared to 196 days for the comparable prior year period and 166 days for the last quarter; and inventory turnover was 51 days, as compared to 61 days for the comparable prior year period and 59 days for the last quarter.

Conference Call

The Company will host a conference call at 8:00 pm November 13, 2018 U.S. Eastern Time / 9:00 am November 14, 2018 Beijing Time, to discuss the financial results for fiscal year 2019 first quarter ended September 30, 2018 and business outlook.

To participate, please call the following numbers ten minutes before the scheduled start of the call. The conference call identification number is **6498818**.

| | |
|---|---------------|
| Standard International Dial-In Number: | +65 67135090 |
| Participant Local Dial-In Numbers: | |
| Australia, Sydney | +61 290833212 |
| China, Domestic | 4006208038 |
| China, Domestic | 8008190121 |
| Hong Kong | +852 30186771 |
| Japan, Tokyo | +81 345036012 |
| Korea (South), Seoul | +82 27395177 |

| | |
|-------------------------|----------------|
| Taiwan, Taipei | +886 255723895 |
| United Kingdom, London | +44 2036214779 |
| United States, New York | +1 8456750437 |

Participant ITFS Dial-In Numbers:

| | |
|------------------------------|---------------|
| Australia | 1300717205 |
| Australia | 1800411623 |
| Belgium | 080071900 |
| Canada | 18663861016 |
| France | 0800912761 |
| Germany | 08001820671 |
| Hong Kong | 800906601 |
| India | 180030105440 |
| Indonesia, PT Indosat access | 0018030179156 |
| Indonesia, PT Telkom access | 0078030179156 |
| Italy | 800874737 |
| Japan | 0120925376 |
| Korea (South), Domestic | 0808500474 |
| Malaysia | 1800820152 |
| Netherlands | 08000221931 |
| New Zealand | 0800880084 |
| Norway | 80010719 |
| Philippines | 180016120306 |
| Switzerland | 0800561006 |
| Taiwan | 0809091568 |
| Thailand | 001800656772 |
| United Kingdom | 08082346646 |
| United States | 18665194004 |

In addition, a recording of the conference call will be accessible within 48 hours via Hollysys' website at: <http://hollysys.investorroom.com>

About Hollysys Automation Technologies Ltd. (NASDAQ: HOLI)

Hollysys Automation Technologies is a leading provider of automation and control technologies and applications in China that enables its diversified industry and utility customers to improve operating safety, reliability, and efficiency. Founded in 1993, Hollysys has approximately 3,300 employees with nationwide presence in over 60 cities in China, with subsidiaries and offices in Singapore, Malaysia, Dubai, India, and serves over 10,000 customers more than 30,000 projects in the industrial, railway, subway & nuclear industries in China, South-East Asia, and the Middle East. Its proprietary technologies are applied in its industrial automation solution suite including DCS (Distributed Control System), PLC (Programmable Logic Controller), RMIS (Real-time Management Information System), HAMS (HolliAS Asset Management System), OTS (Operator Training System), HolliAS

BATCH (Batch Application Package), HolliAS APC Suite (Advanced Process Control Package), SIS (Safety Instrumentation System), high-speed railway signaling system of TCC (Train Control Center), ATP (Automatic Train Protection), SCADA (Supervisory Control and Data Acquisition), nuclear power plant automation and control system and other products.

SAFE HARBOUR:

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact included herein are "forward-looking statements," including statements regarding: the ability of the Company to achieve its commercial objectives; the business strategy, plans and objectives of the Company and its subsidiaries; and any other statements of non-historical information. These forward-looking statements are often identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions, involve known and unknown risks and uncertainties. Such forward-looking statements, based upon the current beliefs and expectations of Hollysys' management, are subject to risks and uncertainties, which could cause actual results to differ from the forward looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in the Company's reports that are filed with the Securities and Exchange Commission and available on its website (<http://www.sec.gov>). All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these factors. Other than as required under the securities laws, the Company does not assume a duty to update these forward-looking statements.

For further information, please contact:

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| | Three months ended | |
|--|---------------------------|--------------------|
| | <u>Sep 30.</u> | |
| | <u>2018</u> | <u>2017</u> |
| | (Unaudited) | (Unaudited) |
| Net revenues | | |
| Integrated contract revenue | \$ 116,650 | \$ 95,690 |
| Products sales | 8,040 | 9,460 |
| Revenue from services | 14,029 | 10,360 |
| Total net revenues | 138,719 | 115,510 |
| | | |
| Cost of integrated contracts | 80,748 | 67,812 |
| Cost of products sold | 2,008 | 2,667 |
| Costs of services rendered | 4,502 | 2,938 |
| Gross profit | 51,461 | 42,093 |
| | | |
| Operating expenses | | |
| Selling | 7,709 | 6,698 |
| General and administrative | 8,654 | 11,349 |
| Research and development | 8,769 | 8,631 |
| VAT refunds and government subsidies | (3,547) | (7,081) |
| Total operating expenses | 21,585 | 19,597 |
| | | |
| Income from operations | 29,876 | 22,496 |
| | | |
| Other income, net | 558 | 439 |
| Foreign exchange loss | (123) | (1,228) |
| Share of net income of equity investees | 98 | 935 |
| Dividend income from a cost investee | - | 1,152 |
| Interest income | 3,099 | 1,476 |
| Interest expenses | (106) | (137) |
| Income before income taxes | 33,402 | 25,133 |
| | | |
| Income taxes expenses | 5,455 | 3,736 |
| Net income | 27,947 | 21,397 |
| | | |
| Net income attributable to non-controlling interests | 46 | 33 |
| Net income attributable to Hollysys Automation Technologies Ltd. | \$ 27,901 | \$ 21,364 |
| | | |
| Other comprehensive (loss) income, net of tax of nil | | |
| Translation adjustments | (29,137) | 14,758 |
| Comprehensive (loss) income | (1,190) | 36,155 |
| | | |
| Less: comprehensive income attributable to non-controlling interests | 46 | 34 |
| Comprehensive (loss) income attributable to Hollysys Automation Technologies Ltd. | \$ (1,236) | \$ 36,121 |
| | | |
| Net income per ordinary share: | | |
| Basic | 0.46 | 0.35 |
| Diluted | 0.46 | 0.35 |
| | | |
| Shares used in income per share computation: | | |
| Weighted average number of ordinary shares | 60,448,111 | 60,425,631 |
| Weighted average number of diluted ordinary shares | 61,263,566 | 61,261,417 |

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED BALANCE SHEETS
(In USD thousands except for number of shares and per share data)

| | <u>Sep 30,</u> <u>2018</u> <u>(Unaudited)</u> | <u>Jun 30,</u> <u>2018</u> <u>(Unaudited)</u> |
|--|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 276,867 | \$ 265,675 |
| Time deposits with maturities over three months | 148,659 | 139,433 |
| Restricted cash | 15,795 | 20,233 |
| Accounts receivable, net of allowance for doubtful accounts of \$45,139 and \$49,094 as of September 30, 2018 and June 30, 2018, respectively | 248,875 | 275,216 |
| Costs and estimated earnings in excess of billings, net of allowance for doubtful accounts of \$9,205 and \$9,929 as of September 30, 2018 and June 30, 2018, respectively | 210,935 | 161,012 |
| Other receivables, net of allowance for doubtful accounts of \$4,874 and \$4,946 as of September 30, 2018 and June 30, 2018, respectively | 21,025 | 30,467 |
| Advances to suppliers | 13,413 | 9,685 |
| Amounts due from related parties | 38,335 | 33,678 |
| Inventories | 36,583 | 58,074 |
| Prepaid expenses | 645 | 713 |
| Income tax recoverable | 6,155 | 6,712 |
| Total current assets | 1,017,287 | 1,000,898 |
| Non-current assets | | |
| Restricted cash | 1,348 | 1,401 |
| Prepaid expenses | 1 | - |
| Property, plant and equipment, net | 74,803 | 80,210 |
| Prepaid land leases | 9,867 | 10,172 |
| Intangible assets, net | 1,610 | 3,186 |
| Investments in equity investees | 46,705 | 53,389 |
| Investments in cost investees | 4,765 | 4,195 |
| Goodwill | 48,263 | 48,359 |
| Deferred tax assets | 7,142 | 8,318 |
| Total non-current assets | 194,504 | 209,230 |
| Total assets | 1,211,791 | 1,210,128 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Derivative financial liability | 412 | 412 |
| Short-term bank loans | 2,293 | 2,865 |
| Current portion of long-term loans | 313 | 350 |
| Dividends payable | 10,862 | - |
| Accounts payable | 121,807 | 129,477 |
| Construction costs payable | 304 | 304 |
| Deferred revenue | 126,688 | 137,692 |

| | | |
|--|---------------------|---------------------|
| Accrued payroll and related expenses | 15,035 | 14,299 |
| Income tax payable | 4,330 | 3,746 |
| Warranty liabilities | 5,284 | 5,622 |
| Other tax payables | 10,252 | 7,801 |
| Accrued liabilities | 19,859 | 25,133 |
| Amounts due to related parties | 3,775 | 5,353 |
| Total current liabilities | 321,214 | 333,054 |
| Non-current liabilities | | |
| Accrued liabilities | 5,800 | 2,410 |
| Long-term loans | 20,719 | 20,709 |
| Deferred tax liabilities | 10,828 | 9,366 |
| Warranty liabilities | 2,186 | 2,236 |
| Total non-current liabilities | 39,533 | 34,721 |
| Total liabilities | 360,747 | 367,775 |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Ordinary shares, par value \$0.001 per share, 100,000,000 shares authorized; 60,342,099 shares issued and outstanding as of September 30, 2018 and June 30, 2018 | 60 | 60 |
| Additional paid-in capital | 223,481 | 223,396 |
| Statutory reserves | 45,970 | 45,970 |
| Retained earnings * | 615,775 | 578,079 |
| Accumulated other comprehensive income | (34,589) | (5,453) |
| Total Hollysys Automation Technologies Ltd. stockholder's equity | 850,697 | 842,052 |
| Non-controlling interests | 347 | 301 |
| Total equity | 851,044 | 842,353 |
| Total liabilities and equity | \$ 1,211,791 | \$ 1,210,128 |

* The adoption of ASC 606 started in July 1st had a one-off effect on the beginning of balance sheet accounts.

| | <u>Three months ended</u> <u>Sep 30, 2018</u> <u>(Unaudited)</u> |
|--|--|
| Cash flows from operating activities: | |
| Net income | \$ 27,947 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation of property, plant and equipment | 2,138 |
| Amortization of prepaid land leases | 66 |
| Amortization of intangible assets | 78 |
| Allowance for doubtful accounts | 443 |
| Loss on disposal of property, plant and equipment | 41 |
| Share of net loss from equity investees | (98) |
| Share-based compensation expenses | 84 |
| Deferred income tax expenses | 2,467 |
| Accretion of convertible bond | 57 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 13,424 |
| Costs and estimated earnings in excess of billings | (37,176) |
| Inventories | 16,806 |
| Advances to suppliers | (4,422) |
| Other receivables | 8,739 |
| Deposits and other assets | 3,677 |
| Due from related parties | 4,422 |
| Accounts payable | (1,729) |
| Deferred revenue | (3,885) |
| Accruals and other payables | 2,714 |
| Due to related parties | (3,132) |
| Income tax payable | 1,001 |
| Other tax payables | 2,954 |
| Net cash provided by operating activities | 36,616 |
| Cash flows from investing activities: | |
| Time deposits placed with banks | (48,419) |
| Purchases of property, plant and equipment | (491) |
| Maturity of time deposits | 34,207 |
| Proceeds from disposal of property, plant and equipment | 73 |
| Investment of a cost investee | (740) |
| Cash reduced upon deconsolidation of subsidiary | (1,640) |
| Net cash used in investing activities | (17,010) |
| Cash flows from financing activities: | |
| Proceeds from short-term bank loans | 273 |
| Repayments of short-term bank loans | (327) |
| Net cash used in financing activities | (54) |
| Effect of foreign exchange rate changes | (8,360) |
| Net increase in cash and cash equivalents | \$ 11,192 |

| | | |
|--|----|---------|
| Cash and cash equivalents, beginning of period | \$ | 265,675 |
| Cash and cash equivalents, end of period | | 276,867 |

Non-GAAP Measures

In evaluating our results, the non-GAAP measures of “Non-GAAP general and administrative expenses”, “Non-GAAP net income attributable to Hollysys Automation Technologies Ltd. stockholders”, “Non-GAAP basic earnings per share”, and “Non-GAAP diluted earnings per share” serve as additional indicators of our operating performance and not as a replacement for other measures in accordance with U.S. GAAP. We believe these non-GAAP measures are useful to investors, as they exclude the non-cash share-based compensation expenses, which is calculated based on the number of shares or options granted and the fair value as of the grant date, amortization of acquired intangible assets, and fair value adjustments of a bifurcated derivative. They will not result in any cash inflows or outflows. We believe that using non-GAAP measures help our shareholders to have a better understanding of our operating results and growth prospects. In addition, given the business nature of the Company, it has been a common practice for investors to use such non-GAAP measures to evaluate the Company.

The following table provides a reconciliation of U.S. GAAP measures to the non-GAAP measures for the periods indicated:

| | <u>Three months ended</u> | |
|--|----------------------------------|---------------------------|
| | <u>Sep 30,</u> | |
| | <u>2018</u> | <u>2017</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| Cost of integrated contracts | \$ 80,748 | \$ 67,812 |
| Less: Amortization of acquired intangible assets | 80 | 179 |
| Non-GAAP cost of integrated contracts | \$ 80,668 | \$ 67,633 |
| General and administrative expenses | \$ 8,654 | \$ 11,349 |
| Less: Share-based compensation expenses | 84 | 392 |
| Non-GAAP general and administrative expenses | \$ 8,570 | \$ 10,957 |
| Net income attributable to Hollysys Automation Technologies Ltd. | \$ 27,901 | \$ 21,364 |
| Add: | | |
| Share-based compensation expenses | 84 | 392 |
| Amortization of acquired intangible assets | 80 | 179 |
| Non-GAAP net income attributable to Hollysys Automation Technologies Ltd. | \$ 28,065 | \$ 21,935 |
| Weighted average number of basic ordinary shares | 60,448,111 | 60,425,631 |
| Weighted average number of diluted ordinary shares | 61,263,566 | 61,261,417 |
| Non-GAAP basic earnings per share | \$ 0.46 | \$ 0.36 |
| Non-GAAP diluted earnings per share | \$ 0.46 | \$ 0.36 |